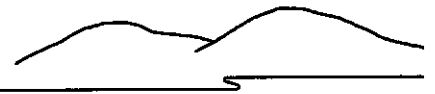


**ESPARTO COMMUNITY SERVICE DISTRICT**

**FINANCIAL STATEMENTS**

**AUDIT REPORT**

**June 30, 2013**



**April 10, 2014**

Esparto Community Service District  
PO Box 349  
Esparto, CA 95627

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of Esparto Community Service District as of and for the years ended June 30, 2013, 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 Service District as of June 30, 2013, 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 April 10, 2014, 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.



Pehling & Pehling, CPA's  
An Accountancy Corporation

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Audit Report  
June 30, 2013**

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**ESPARTO COMMUNITY SERVICE DISTRICT**

**Statement of Net Position**

**June 30, 2013**

|                                  | Major Fund | 466              | Minor Fund | 469            | Minor Fund | 470           | Minor Fund | 471      | Minor Fund | 472      | Minor Fund | 473      | June 30, 2013 Memorandum Only |
|----------------------------------|------------|------------------|------------|----------------|------------|---------------|------------|----------|------------|----------|------------|----------|-------------------------------|
| <b><u>ASSETS</u></b>             |            |                  |            |                |            |               |            |          |            |          |            |          |                               |
| Current Assets:                  |            |                  |            |                |            |               |            |          |            |          |            |          |                               |
| Funds on Deposit, County of Yolo | \$         | 500,771          | \$         | 730,760        | \$         | -             | \$         | -        | \$         | -        | \$         | -        | \$ 1,231,531                  |
| Reserved Funds for USDA          |            | -                |            | -              |            | 77,077        |            | -        |            | -        |            | -        | 77,077                        |
| Restricted Funds on Deposit      |            | 205,308          |            | -              |            | -             |            | -        |            | -        |            | -        | 205,308                       |
| Funds on Deposit, Bank           |            | 73,245           |            | -              |            | -             |            | -        |            | -        |            | -        | 73,245                        |
| Accounts Receivable              |            | 43,067           |            | -              |            | -             |            | -        |            | -        |            | -        | 43,067                        |
| Total Current Assets             |            | 822,390          |            | 730,760        |            | 77,077        |            | -        |            | -        |            | -        | 1,630,228                     |
| Capital Assets:                  |            |                  |            |                |            |               |            |          |            |          |            |          |                               |
| Land                             |            | 287,475          |            | -              |            | -             |            | -        |            | -        |            | -        | 287,475                       |
| Buildings and Improvements       |            | 8,146,603        |            | -              |            | -             |            | -        |            | -        |            | -        | 8,146,603                     |
| Equipment                        |            | 340,639          |            | -              |            | -             |            | -        |            | -        |            | -        | 340,639                       |
| Less: Accumulated Depreciation   |            | (1,756,698)      |            | -              |            | -             |            | -        |            | -        |            | -        | (1,756,698)                   |
| Total Capital Assets             |            | 7,018,019        |            | -              |            | -             |            | -        |            | -        |            | -        | 7,018,019                     |
| <b>TOTAL ASSETS</b>              |            | <b>7,840,409</b> |            | <b>730,760</b> |            | <b>77,077</b> |            | <b>-</b> |            | <b>-</b> |            | <b>-</b> | <b>8,648,247</b>              |
| <b><u>LIABILITIES</u></b>        |            |                  |            |                |            |               |            |          |            |          |            |          |                               |
| Current Liabilities:             |            |                  |            |                |            |               |            |          |            |          |            |          |                               |
| Accounts Payable                 |            | 144,604          |            | -              |            | -             |            | -        |            | -        |            | -        | 144,604                       |
| Accrued Expenses                 |            | 22,868           |            | -              |            | -             |            | -        |            | -        |            | -        | 22,868                        |
| Notes Payable - Current Portion  |            | 91,935           |            | -              |            | -             |            | -        |            | -        |            | -        | 91,935                        |
| Unearned Revenue                 |            | -                |            | 297,076        |            | -             |            | -        |            | -        |            | -        | 297,076                       |
| Total Current Liabilities        |            | 259,407          |            | 297,076        |            | -             |            | -        |            | -        |            | -        | 556,483                       |

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

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Statement of Net Position**  
**6/30/2013**

|                                  |                     |                   |                  |                     |
|----------------------------------|---------------------|-------------------|------------------|---------------------|
| <u>Long-Term Liabilities:</u>    |                     |                   |                  |                     |
| Net OPEB                         | 42,899              |                   |                  | 42,899              |
| Notes Payable                    | 4,808,192           | -                 | -                | 4,808,192           |
| Notes Payable - Current Portion  | (91,935)            | -                 | -                | (91,935)            |
| Total Long-Term Liabilities      | <u>4,759,156</u>    | -                 | -                | <u>4,759,156</u>    |
| <b>TOTAL LIABILITIES</b>         | <b>5,018,563</b>    | <b>297,076</b>    | <b>-</b>         | <b>5,315,639</b>    |
| <br>                             |                     |                   |                  |                     |
| <b><u>NET POSITION</u></b>       |                     |                   |                  |                     |
| Net Investment in Capital Assets | 2,209,827           | -                 | -                | 2,209,827           |
| Restricted                       | 306,310             | 433,684           | 77,077           | 817,071             |
| Unrestricted                     | 305,710             | -                 | -                | 305,710             |
| <b>TOTAL NET POSITION</b>        | <b>\$ 2,821,846</b> | <b>\$ 433,684</b> | <b>\$ 77,077</b> | <b>\$ 3,332,607</b> |

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

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Statement of Activities**

**For the Year-Ended**

**June 30, 2013**

|  | <u>Expenses</u> | <u>Revenues</u> | <u>Excess of<br/>Revenues/(Expenses)</u> |
|--|-----------------|-----------------|--|
| Lighting Service                       | \$ (15,763)     | \$ 20,688       | \$ 4,925                                 |
| Sewer Service                          | (458,536)       | 442,187         | (16,349)                                 |
| Water Service                          | (667,332)       | 650,053         | (17,279)                                 |
| General                                | (32,384)        | 276,241         | <u>243,858</u>                           |
| <b>NET CHANGE IN NET POSITION</b>      |                 |                 | <u>215,154</u>                           |
| <b>NET POSITION, BEGINNING OF YEAR</b> |                 |                 | <u>3,117,453</u>                         |
| <b>NET POSITION, END OF YEAR</b>       |                 |                 | <u><u>\$ 3,332,607</u></u>               |

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

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Schedule of Revenues, Expenses & Change in Net Position**  
**For the Year-Ended**  
**June 30, 2013**

|                             | Major Fund       | Minor Fund     | Minor Fund | Minor Fund | Minor Fund | Minor Fund | Total Memorandum Only |
|-----------------------------|------------------|----------------|------------|------------|------------|------------|-----------------------|
|                             | 466              | 469            | 470        | 471        | 472        | 473        |                       |
| <b>REVENUES:</b>            |                  |                |            |            |            |            |                       |
| Taxes                       | \$ 39,312        | \$ -           | \$ -       | \$ -       | \$ -       | \$ -       | \$ 39,312             |
| Development Fees            | -                | 231,871        | -          | -          | -          | -          | 231,871               |
| Interest                    | 1,273            | 2,541          | 143        | -          | -          | -          | 3,958                 |
| General Charges for Service | -                | -              | -          | -          | -          | -          | -                     |
| Lighting Service            | 20,688           | -              | -          | -          | -          | -          | 20,688                |
| Sewer Service               | 442,187          | -              | -          | -          | -          | -          | 442,187               |
| Water Service               | 650,053          | -              | -          | -          | -          | -          | 650,053               |
| Misc. Revenues              | 1,101            | -              | -          | -          | -          | -          | 1,101                 |
| <b>TOTAL REVENUES</b>       | <b>1,154,614</b> | <b>234,412</b> | <b>143</b> | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>1,389,169</b>      |
| <b>EXPENSES:</b>            |                  |                |            |            |            |            |                       |
| Interest                    | 1,196            | -              | -          | -          | -          | 200,228    | 201,423               |
| Depreciation                | 259,493          | -              | -          | -          | -          | -          | 259,493               |
| Insurance                   | 17,918           | -              | -          | -          | -          | -          | 17,918                |
| Supplies                    | 9,300            | -              | -          | -          | -          | -          | 9,300                 |
| Travel & Training           | 5,255            | -              | -          | -          | -          | -          | 5,255                 |
| Office                      | 4,781            | -              | -          | -          | -          | -          | 4,781                 |
| Salaries and Benefits       | 401,036          | -              | -          | -          | -          | -          | 401,036               |
| Professional Fees           | 77,122           | -              | -          | -          | -          | -          | 77,122                |
| Utilities                   | 116,172          | -              | -          | -          | -          | -          | 116,172               |
| Maintenance & Small Tools   | 55,251           | -              | -          | -          | -          | -          | 55,251                |
| Miscellaneous               | 26,263           | -              | -          | -          | -          | -          | 26,263                |

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



**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Schedule of Revenues, Expenses & Change in Net Position**  
**For the Year-Ended**  
**June 30, 2013**

|   |                     |                   |                  |             |             |                     |
|---|---------------------|-------------------|------------------|-------------|-------------|---------------------|
| <b>TOTAL EXPENSES</b>                       | 973,788             | -                 | -                | -           | 200,228     | 1,174,015           |
| Excess of Revenues Over<br>(Under) Expenses | 180,826             | 234,412           | 143              | -           | (200,228)   | 215,153             |
| Other financial sources/uses                |                     |                   |                  |             |             |                     |
| Fund Transfer                               | (101,283)           | (124,538)         | 25,593           | -           | 200,228     | -                   |
| <b>NET CHANGE IN NET POSITION</b>           | <u>79,543</u>       | <u>109,874</u>    | <u>25,736</u>    | <u>-</u>    | <u>-</u>    | <u>215,154</u>      |
| <b>NET POSITION, BEGINNING OF YEAR</b>      | <u>2,742,302</u>    | <u>323,810</u>    | <u>51,341</u>    | <u>-</u>    | <u>-</u>    | <u>3,117,453</u>    |
| <b>NET POSITION, END OF YEAR</b>            | <u>\$ 2,821,845</u> | <u>\$ 433,684</u> | <u>\$ 77,077</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,332,607</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, 2013**

|   | 469               | 470               | 471              | 472         | 473              | Jun-13<br>Memorandum<br>Only |
|---|-------------------|-------------------|------------------|-------------|------------------|------------------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>                     |                   |                   |                  |             |                  |                              |
| Cash Received from Development Fees                                     | \$ 3,907          | \$ -              | \$ -             | \$ -        | \$ -             | \$ 3,907                     |
| Cash Received from Charges for Service                                  | -                 | -                 | -                | -           | -                | 1,107,397                    |
| Deduct: Cash paid for Operating Expenses                                | (581,837)         | -                 | -                | -           | -                | (581,837)                    |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>                         | <b>3,907</b>      | <b>-</b>          | <b>-</b>         | <b>-</b>    | <b>-</b>         | <b>529,467</b>               |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b> |                   |                   |                  |             |                  |                              |
| Interest Expense  | (1,196)           | -                 | -                | -           | (200,228)        | (201,424)                    |
| Payment on Principle on Notes Payable                                   | (6,731)           | -                 | -                | -           | (82,000)         | (88,731)                     |
| Purchase of Capital Assets  | (239,131)         | -                 | -                | -           | -                | (239,131)                    |
| <b>NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>     | <b>(247,058)</b>  | <b>-</b>          | <b>-</b>         | <b>-</b>    | <b>(282,228)</b> | <b>(239,131)</b>             |
| <b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>          |                   |                   |                  |             |                  |                              |
| Cash Transferred Between Funds  | (124,538)         | 25,592            | -                | -           | 282,228          | 1,000                        |
| Property Tax Receipts   | 39,312            | -                 | -                | -           | -                | 39,312                       |
| <b>NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>              | <b>(124,970)</b>  | <b>25,592</b>     | <b>-</b>         | <b>-</b>    | <b>282,228</b>   | <b>40,312</b>                |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>                     |                   |                   |                  |             |                  |                              |
| Interest Receipts   | 1,273             | 2,541             | 144              | -           | -                | 3,958                        |
| <b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>                         | <b>1,273</b>      | <b>2,541</b>      | <b>144</b>       | <b>-</b>    | <b>-</b>         | <b>3,958</b>                 |
| <b>NET INCREASE (DECREASE) IN CASH</b>                                  | <b>136,805</b>    | <b>(118,090)</b>  | <b>25,736</b>    | <b>-</b>    | <b>-</b>         | <b>44,451</b>                |
| <b>CASH, BEGINNING OF YEAR</b>  | <b>642,519</b>    | <b>848,850</b>    | <b>51,341</b>    | <b>-</b>    | <b>-</b>         | <b>1,542,710</b>             |
| <b>CASH, END OF YEAR</b>  | <b>\$ 779,324</b> | <b>\$ 730,760</b> | <b>\$ 77,077</b> | <b>\$ -</b> | <b>\$ -</b>      | <b>\$ 1,587,161</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, 2013

**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

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2013

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 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), 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, 2013

**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, 2013, 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. 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.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2013

|                        |                   |
|------------------------|-------------------|
| Developer Fees 6/30/12 | \$ 525,040        |
| Fees Collected         | 3,907             |
| Capital Purchases      | <u>(231,871)</u>  |
| Developer Fees 6/30/13 | <u>\$ 297,076</u> |

**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, 2013:

|                              | Balance at<br>June 30,<br>2012 | Additions   | (Deletions)        | Balance at<br>June 30,<br>2013 |
|------------------------------|--------------------------------|-------------|--------------------|--------------------------------|
| Notes Payable - CDBG         | \$ 42,923                      | \$ -        | \$ (6,731)         | \$ 36,192                      |
| Notes Payable - Bank of West | -                              | -           | -                  | -                              |
| USDA Water Loan              | 3,342,000                      | -           | (63,000)           | 3,279,000                      |
| USDA Sewer Loan              | 1,512,000                      | -           | (19,000)           | 1,493,000                      |
| Capital Leases               | -                              | -           | -                  | -                              |
| Total Long-Term Liabilities  | \$ <u>4,896,923</u>            | \$ <u>-</u> | \$ <u>(88,731)</u> | \$ <u>4,808,192</u>            |

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2013

**K. 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, 2013, annual debt service requirements to maturity are as follows:

|                       | <u>2013</u>     |
|-----------------------|-----------------|
| Current Portion Due   | \$ 6,935        |
| Long-Term Portion Due | <u>29,257</u>   |
| Total Due             | <u>\$36,192</u> |

**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, 2013 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, 2013, annual future minimum lease payments are as follows:

|                       | <u>2013</u>        |
|-----------------------|--------------------|
| Current Portion Due   | \$ 65,000          |
| Long-Term Portion Due | <u>3,214,000</u>   |
| Total Due             | <u>\$3,279,000</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, 2013 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, 2013, annual future minimum payments are as follows:

|                       | <u>2013</u>         |
|-----------------------|---------------------|
| Current Portion Due   | \$ 20,000           |
| Long-Term Portion Due | <u>1,473,000</u>    |
| Total Due             | <u>\$ 1,493,000</u> |

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2013

**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.

**P. 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.

**Q. 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.

|  | <b><u>Water</u></b>       | <b><u>Sewer</u></b>        |
|--|---------------------------|----------------------------|
| <b><u>Net Position 6/30/12</u></b>       | \$1,376,227               | \$ 1,740,526               |
| <b><u>Net Change in Net Position</u></b> | 92,434                    | 123,420                    |
| <b><u>Net Position 6/30/13</u></b>       | <b><u>\$1,468,661</u></b> | <b><u>\$ 1,863,946</u></b> |

**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 2013, 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, 2013

**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 2012/2013 was 17.548% for employees. The contribution rate is established and may be amended by CalPERS.

Annual Pension Cost - For fiscal year 2012/2013, 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 2012/2013 was determined as part of the June 30, 2010 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> |
|---------------------------|----------------------------------|--------------------------------------|-------------------------------|
| 6/30/11                   | \$ 63,256                        | 100%                                 | N/A                           |
| 6/30/12                   | \$ 63,225                        | 100%                                 | N/A                           |
| 6/30/13                   | \$ 52,802                        | 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.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2013

**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, 2013, 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.

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. |

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Notes to Financial Statements**  
June 30, 2013

Schedules of Employer Contributions

**Employer Contributions District Service**

| <u>Year Ended</u> | <u>Annual Required<br/>Contribution</u> | <u>Actual<br/>Contribution</u> | <u>Percentage<br/>Contributed</u> |
|-------------------|---|--------------------------------|-----------------------------------|
| 6/30/11           | \$ -                                    | \$ -                           | 0.0%                              |
| 6/30/12           | 33,567                                  | 12,000                         | 35.7%                             |
| 6/30/13           | 33,567                                  | 12,000                         | 35.7%                             |

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

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

**NOTE 6: CONTIGENCIES**

As of June 30, 2013, 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.

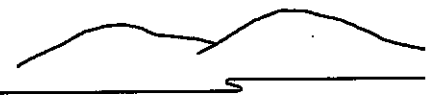
**NOTE 7: SUBSEQUENT EVENTS**

The District's management has evaluated events and transactions subsequent to June 30, 2012 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through April 10, 2014, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after April 10, 2014. The District did not have any subsequent events that require recognition or disclosure in the financial statements for the year ended June 30, 2013.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Supplemental Information**

**June 30, 2013**



April 10, 2014

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, 2013, and have issued our report thereon dated April 10, 2014. 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  
April 10, 2014