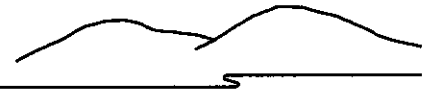


ESPARTO COMMUNITY SERVICE DISTRICT

FINANCIAL STATEMENTS

AUDIT REPORT

June 30, 2014



February 12, 2015

To the Board of Directors
Esparto Community Service District

We have reviewed the financial statements of Esparto Community Service District for the year ended June 30, 2014, and have issued our report thereon dated February 12, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted reviewing standards as well as certain information related to the planned scope and timing of our review. We have communicated such information in our letter to you. Professional standards also require that we communicate to you the following information related to our review.

Significant Review Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Esparto Community Service District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Difficulties Encountered in Performing the Review

We encountered no significant difficulties in dealing with management in performing and completing our review.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the review, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements in addition, none of the misstatements detected as a result of review procedures and corrected by management were material, either individually or in the aggregate, to the statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or reviewing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the review report. We are pleased to report that no such disagreements arose during the course of our review.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 12, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about reviewing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of review opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge there were no such consultations with other accountants.

Other Review Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and reviewing standards, with management each year prior to retention as the Organization's review, however, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

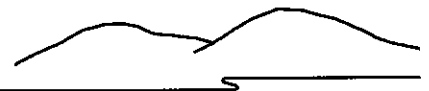
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our review of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Board of Directors and management of Esparto Community Service District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Pehling & Pehling CPAs



February 12, 2015

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, 2014, 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, 2014, and the respective changes in financial position, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2015, 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, 2014**

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ESPARTO COMMUNITY SERVICE DISTRICT

Statement of Net Position

June 30, 2014

	Major Fund	Minor Fund	Minor Fund	Minor Fund	June 30, 2014 Memorandum Only
	466	469	470	473	
<u>ASSETS</u>					
<u>Current Assets:</u>					
Funds on Deposit, County of Yolo	\$ 387,266	\$ 436,358	\$ -	\$ -	\$ 823,624
Reserved Funds for USDA	-	-	102,920	-	102,920
Restricted Funds on Deposit	210,972	460,445	-	-	671,417
Funds on Deposit, Bank	74,101	-	-	-	74,101
Accounts Receivable	46,284	-	-	-	46,284
Total Current Assets	718,622	896,803	102,920	-	1,718,345
<u>Capital Assets:</u>					
Land	287,475	-	-	-	287,475
Buildings and Improvements	7,955,023	-	-	-	7,955,023
Construction-in-progress	32,827	-	-	-	-
Equipment	418,942	-	-	-	418,942
Less: Accumulated Depreciation	(1,889,204)	-	-	-	(1,889,204)
Total Capital Assets	6,805,063	-	-	-	6,772,236
TOTAL ASSETS	7,523,685	896,803	102,920	-	8,490,581
<u>LIABILITIES</u>					
<u>Current Liabilities:</u>					
Accounts Payable	22,359	-	-	-	22,359
Accrued Expenses	22,903	-	-	-	22,903
Notes Payable - Current Portion	91,935	-	-	-	91,935
Unearned Revenue	-	460,445	-	-	460,445
Total Current Liabilities	137,196	460,445	-	-	597,641

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

ESPARTO COMMUNITY SERVICE DISTRICT
Statement of Net Position
June 30, 2014

<u>Long-Term Liabilities:</u>				
Net OPEB	64,701			64,701
Notes Payable	4,687,000	-	-	4,687,000
Notes Payable - Current Portion	(91,935)	-	-	(91,935)
Total Long-Term Liabilities	4,659,766	-	-	4,659,766
TOTAL LIABILITIES	4,796,962	460,445	-	5,257,407

NET POSITION

Net Investment in Capital Assets	2,118,063	-	-	2,118,063
Restricted	331,974	-	102,920	434,894
Unrestricted	276,686	436,358	-	713,044
TOTAL NET POSITION	\$ 2,726,723	\$ 436,358	\$ 102,920	\$ 3,266,000

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

ESPARTO COMMUNITY SERVICE DISTRICT

Statement of Activities

For the Year-Ended

June 30, 2014

	<u>Expenses</u>	<u>Revenues</u>	<u>Excess of Revenues/(Expenses)</u>
Lighting Service	\$ (18,635)	\$ 21,611	\$ 2,976
Sewer Service	(465,280)	466,343	1,063
Water Service	(588,386)	667,649	79,263
General	(226,142)	76,234	<u>(149,908)</u>
NET CHANGE IN NET POSITION			<u>(66,606)</u>
NET POSITION, BEGINNING OF YEAR			<u>3,332,606</u>
NET POSITION, END OF YEAR			<u><u>\$ 3,266,000</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, 2014

	Major Fund	Minor Fund	Minor Fund	Minor Fund	Total Memorandum Only
	466	469	470	473	
REVENUES:					
Taxes	\$ 38,823	\$ -	\$ -	\$ -	\$ 38,823
Development Fees	-	32,827	-	-	32,827
Interest	1,518	2,674	250	-	4,442
General Charges for Service	-	-	-	-	-
Lighting Service	21,611	-	-	-	21,611
Sewer Service	466,343	-	-	-	466,343
Water Service	667,649	-	-	-	667,649
Misc. Revenues	143	-	-	-	143
TOTAL REVENUES	1,196,087	35,501	250	-	1,231,838
EXPENSES:					
Interest	319	-	-	196,845	197,164
Depreciation	245,537	-	-	-	245,537
Insurance	17,322	-	-	-	17,322
Supplies	8,916	-	-	-	8,916
Travel & Training	9,845	-	-	-	9,845
Office	7,133	-	-	-	7,133
Salaries and Benefits	431,411	-	-	-	431,411
Professional Fees	179,908	-	-	-	179,908
Utilities	100,725	-	-	-	100,725
Maintenance & Small Tools	72,378	-	-	-	72,378
Miscellaneous	28,105	-	-	-	28,105

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, 2014

TOTAL EXPENSES	1,101,599	-	196,845	<u>1,298,444</u>
Excess of Revenues Over (Under) Expenses	94,487	35,501	250	<u>(66,607)</u>
Other financial sources/uses				
Fund Transfer	<u>(189,611)</u>	<u>(32,827)</u>	25,593	-
NET CHANGE IN NET POSITION	<u>(95,124)</u>	<u>2,674</u>	<u>25,843</u>	<u>(66,606)</u>
NET POSITION, BEGINNING OF YEAR	<u>2,821,845</u>	<u>433,684</u>	<u>77,077</u>	<u>3,332,606</u>
NET POSITION, END OF YEAR	<u><u>\$ 2,726,721</u></u>	<u><u>\$ 436,358</u></u>	<u><u>\$ 102,920</u></u>	<u><u>\$ 3,266,000</u></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, 2014

	466	469	470	473	Jun-14 Memorandum Only
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>					
Cash Received from Development Fees	\$ -	\$ 196,196	\$ -	\$ -	\$ 196,196
Cash Received from Charges for Service	1,152,981	-	-	-	1,152,981
Deduct: Cash paid for Operating Expenses	(956,359)	-	-	-	(956,359)
NET CASH FLOWS FROM OPERATING ACTIVITIES	196,622	196,196	-	-	392,818
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Interest Expense	(319)	-	-	(196,845)	(197,164)
Payment on Principle on Notes Payable	(36,192)	-	-	(85,000)	(121,192)
Purchase of Capital Assets	(32,827)	-	-	-	(32,827)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(69,338)	-	-	(281,845)	(32,827)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Cash Transferred Between Funds	(274,610)	(32,827)	25,592	281,845	-
Property Tax Receipts	38,823	-	-	-	38,823
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	(235,787)	(32,827)	25,592	281,845	38,823
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Interest Receipts	1,518	2,674	251	-	4,443
NET CASH FLOWS FROM INVESTING ACTIVITIES	1,518	2,674	251	-	4,443
NET INCREASE (DECREASE) IN CASH	(106,985)	166,043	25,843	-	84,901
CASH, BEGINNING OF YEAR	779,324	730,760	77,077	-	1,587,161
CASH, END OF YEAR	\$ 672,339	\$ 896,803	\$ 102,920	\$ -	\$ 1,672,062

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

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2014

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, 2014

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), 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, 2014

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, 2014, the primary government had the following investments:

	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Agency</u>
Cash in County Treasury	1,897,961	Unrated	NA
Cash in Local Bank	75,351	FDIC ins.	NA
Cash on Hand	<u>750</u>	Unrated	NA
Total Cash	\$ 1,974,062		

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. An allowance for doubtful accounts of \$10,460 has been created.

G. Accounts Payable

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

H. Unearned Revenue

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

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2014

Developer Fees 6/30/13	\$ 297,076
Fees Collected	196,196
Capital Purchases	(32,827)
Developer Fees 6/30/14	<u>\$ 460,445</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, 2014:

	Balance at June 30, 2013	Additions	(Deletions)	Balance at June 30, 2014
Notes Payable - CDBG	\$ 36,192	\$ -	\$ (36,192)	\$ -
Notes Payable - Bank of West	-	-	-	-
USDA Water Loan	3,279,000	-	(65,000)	3,214,000
USDA Sewer Loan	1,493,000	-	(20,000)	1,473,000
Capital Leases	-	-	-	-
Total Long-Term Liabilities	\$ <u>4,808,192</u>	\$ <u>-</u>	\$ <u>(121,192)</u>	\$ <u>4,687,000</u>

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2014

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, 2014 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, 2014, annual future minimum lease payments are as follows:

2014

Current Portion Due	\$ 66,000
Long-Term Portion Due	<u>3,148,000</u>
Total Due	<u>\$3,214,000</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, 2014 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, 2014, annual future minimum payments are as follows:

2014

Current Portion Due	\$ 21,000
Long-Term Portion Due	<u>1,452,000</u>
Total Due	<u>\$ 1,473,000</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

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2014

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 charges 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.

	<u>Water</u>	<u>Sewer</u>
<u>Net Position 6/30/13</u>	\$1,468,661	\$ 1,863,946
<u>Net Change in Net Position</u>	<u>5,797</u>	<u>(72,403)</u>
<u>Net Position 6/30/14</u>	<u>\$1,474,458</u>	<u>\$ 1,791,543</u>

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 2014, 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.

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2014

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 2013/2014 was 19.081% for employees. The contribution rate is established and may be amended by CalPERS.

Annual Pension Cost - For fiscal year 2013/2014, the District's defined benefit pension plan's annual pension cost was \$57,992 for CalPERS and was equal to the District's required and actual contributions. The required contribution for fiscal year 2013/2014 was determined as part of the June 30, 2011 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 3.30% to 14.20% for miscellaneous members and from 3.30% to 14.20% for members, and (c) 3% payroll growth. Both (a) and (b) include an inflation component of 2.75%. 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>
6/30/12	\$ 63,225	100%	N/A
6/30/13	\$ 52,802	100%	N/A
6/30/14	\$ 57,992	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

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2014

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.

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>
6/30/12	\$ 33,567	\$ 12,000	35.7%
6/30/13	33,567	12,000	35.7%
6/30/14	33,567	12,000	35.7%

ESPARTO COMMUNITY SERVICE DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 5: USE OF RESTRICTED/UNRESTRICTED NET POSITION

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

NOTE 6: CONTIGENCIES

As of June 30, 2014, 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.

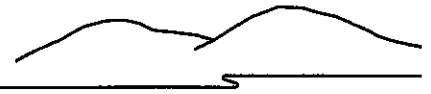
NOTE 7: SUBSEQUENT EVENTS

The District's management has evaluated events and transactions subsequent to June 30, 2014 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through February 12, 2015, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after February 12, 2015. The District did not have any subsequent events that require recognition or disclosure in the financial statements for the year ended June 30, 2014.

ESPARTO COMMUNITY SERVICE DISTRICT

Supplemental Information

June 30, 2014



February 12, 2015

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, 2014, and have issued our report thereon dated February 12, 2015. 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
February 12, 2015

ESPARTO COMMUNITY SERVICE DISTRICT
PO Box 349
Esparto, CA 95627

February 12, 2015

Zach Pehling
Certified Public Accountant
Master of Business Administration

2888 Marina View Dr
Kelseyville, CA 95451

Dear Zach:

We are providing this letter in connection with your audit of the financial statements of Esparto Community Service District as of February 12, 2015 and for the years, June 30, 2014 then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business –type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Esparto Community Service District and the respective changes in the financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with the U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principle to be included in the financial reporting entity.
2. We have made available to you all-
 - a. Financial records and related data [and all audit or relevant monitoring reports, if any, received from funding sources].
 - b. Minutes of the meetings of the Board of Directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Zach Pehling
Certified Public Accountant
Master of Business Administration
February 12, 2015

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We believe the effects of the uncorrected financial statements misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect of the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in the communications from employees, analysts, regulators, or others.
9. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported to us.
10. We have a process to track the status of audit findings and recommendations
11. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
12. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
13. Esparto Community Service District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
14. The following, if any have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which Esparto Community Service District is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances consistently applied, and adequately disclosed.
15. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
16. There are no-
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant

Zach Pehling
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Master of Business Administration
February 12, 2015

- agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency or for reporting on noncompliance.
- b. Unasserted claims or assessments that our lawyer has advised us are probable or assertions and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.
17. As part of your audit, you prepared the draft financial statements and related notes [and schedule of expenditures of federal awards]. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes [and schedule of expenditures of federal awards.]
 18. Esparto Community Service District has satisfactorily title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
 19. Esparto Community Service District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
 20. The financial statements include all component units as well as joint ventures with and equity interest, and properly disclose all other joint ventures and other related organizations.
 21. The financial statements properly classify all funds and activities.
 22. All funds that meet the quantitative criteria in GASB statement No. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
 23. Net asset components (invested in capital assets, net of related debt restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
 24. Provisions for uncollectible receivables have been properly identified and recorded.
 25. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 26. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principle.
 27. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 28. Deposits and investments securities are properly classified as to risk, and investments are properly valued.
 29. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 30. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
 31. With respect to federal programs:
 - a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, *-Audits of States, Local Governments and Non-Profit Organizations*.
 - b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, Federal cost-reimbursement contracts, loans, loan

Zach Pehling
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Master of Business Administration
February 12, 2015

- guarantees, property (including donated surplus property) cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
- c. We are responsible for complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that re considered to have a direct and material effect on each major federal program.
 - d. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing or federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on your federal programs. We believe the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions (including material weaknesses) reported in the schedule of findings and questioned costs.
 - e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs.
 - f. We have received no requests for a federal agency to audit one or more specific programs as a major program.
 - g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any know noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
 - h. Amounts claimed or used for matching were determined to accordance with relevant guidelines in *OMB Circular a-87, Cost Principles for State, Local, and Tribal Governments*, and *OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
 - i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
 - j. We have made available to you all documentation related to compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
 - k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
 - l. We have charged costs to federal awards in accordance with applicable cost principles.
 - m. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
 - n. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by *OMB Circular A-133* and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

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- o. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action for each audit finding.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to of disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Signed: _____
Title: _____

Signed: _____
Title: _____