

**ESPARTO COMMUNITY
SERVICE DISTRICT**

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2004**

**ESPARTO COMMUNITY SERVICE DISTRICT
AUDIT REPORT
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Esparto Community Service District
Esparto, California

We have audited the accompanying basic financial statements of the Esparto Community Services District (District) as of June 30, 2004, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Esparto Community Services District as of June 30, 2004 and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the District has implemented a new financial reporting model to comply with the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

Board of Directors
Esparto Community Service District
Esparto, California

The management's discussion and analysis and the schedule of funding progress are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 2, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Esparto Community Services District taken as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig, Basler & Ray, CPAs, Inc.

May 2, 2005
Roseville, California

ESPARTO COMMUNITY SERVICE DISTRICT

Management's Discussion and Analysis
June 30, 2004

The following Management's Discussion and Analysis ("MD&A") of the Esparto Community Services District (the "District") financial performance provides an introduction to the financial statements for the year ended June 30, 2004. The information contained in this MD&A should be considered in conjunction with the information contained in the District's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles set forth by the Governmental Accounting Standards Board. The District is structured as an enterprise fund. The District's revenues are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and with the exception of land, are depreciated over their useful lives. See the notes to the financial statements for a summary of the District's significant accounting policies. Following this discussion and analysis are the basic financial statements of the District.

The District's basic financial statements are designed to provide readers with a broad overview of the District's financial status.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the District's financial position.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing the change in the District's net assets during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are recorded and reported in this statement for some items that will result in cash flows in future periods.

The Statement of Cash Flows relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the District's cash accounts are recorded in this statement. A reconciliation of the Statement of Cash Flows is provided at the bottom to assist in the understanding of the difference between cash flows from operating activities and operating income.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

ESPARTO COMMUNITY SERVICE DISTRICT

Management's Discussion and Analysis
June 30, 2004

FINANCIAL HIGHLIGHTS

On June 30, 2004 the assets of the District exceeded its liabilities by \$2,537,625 (net assets). Of this amount \$376,821 (unrestricted net assets) may be used to meet the District's ongoing obligations to its citizens and creditors and \$2,160,804 is invested in capital assets, net of related debt.

Financial Position

Following are comparative condensed financial statements for the District:

Esparto Community Services District's Net Assets

	<u>2004</u>	<u>2003</u>	<u>Variance</u>
Current and other assets	\$ 173,490	\$ 131,753	31.68%
Restricted cash	518,150	704,583	(26.46)%
Capital assets	<u>2,519,514</u>	<u>2,321,358</u>	<u>8.54%</u>
Total Assets	<u>3,211,154</u>	<u>3,157,694</u>	<u>1.69%</u>
Current liabilities	335,916	402,140	(16.47)%
Non-current liabilities	<u>337,613</u>	<u>295,106</u>	<u>14.40%</u>
Total Liabilities	<u>673,529</u>	<u>697,246</u>	<u>(3.40)%</u>
Net Assets:			
Invested in capital assets, net of related debt	2,160,804	2,005,687	7.73%
Unrestricted	<u>376,821</u>	<u>454,761</u>	<u>(17.14)%</u>
Total Net Assets	<u>\$ 2,537,625</u>	<u>\$ 2,460,448</u>	<u>3.14%</u>

As shown in the schedule above, at June 30, 2004, the District's total assets are \$3,211,154. The total assets held increased \$53,460 or 2% from the June 30, 2003 balance. The total liabilities decreased by \$23,717 or 3% from the prior year. The District's net assets at June 30, 2004 increased from the prior year by 3% or \$77,177.

Unrestricted net assets of the District at June 30, 2004 amounted to \$376,821. This was a decrease from the prior year amount of \$454,761. In relation, the investment in capital assets increased to \$2,160,804 from the prior year amount of \$2,005,687. This total increase in net assets was \$77,177 and is directly related to the expenditure of development fees and operating revenue toward infrastructure replacement.

ESPARTO COMMUNITY SERVICE DISTRICT

Management's Discussion and Analysis
June 30, 2004

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land, infrastructure and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities.

Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>Variance</u>
Revenues:			
Operating revenues	\$ 320,158	\$ 254,982	25.56%
Non-operating revenues	<u>204,156</u>	<u>259,234</u>	<u>(21.25)%</u>
Total Revenues	524,314	514,216	1.96%
Expenses:			
Operating expenses	620,350	470,867	31.75%
Non-operating expenses	<u>19,218</u>	<u>9,170</u>	<u>109.57%</u>
Total Expenses	<u>639,568</u>	<u>480,037</u>	<u>33.23%</u>
Income (Loss) Before Contributions	(115,254)	34,179	(437.21)%
Capital Contributions	<u>231,779</u>	<u>--</u>	<u>--</u>
Change in Net Assets	116,525	34,179	240.93%
Net Assets – Restated, Beginning	<u>2,421,100</u>	<u>2,426,269</u>	<u>(0.21)%</u>
Net Assets – Ending	<u>\$ 2,537,625</u>	<u>\$ 2,460,448</u>	<u>3.14%</u>

The financial statements of the District are presented in the GASB 34 format, which required the District's accounting structure to be reported as a business-type operation.

Revenues – The District's operating revenues for Fiscal Year 2003-04 increased by 26%. This is attributed to an increase in the number of service connections within the district as well as recovery of delinquent accounts. However, the total revenue remained about constant as less money was used from the restricted reserves.

Expenditures – The District's expenditures for Fiscal Year 2003-04 increased by 33%. This was due to the costs associated with repairing and replacing deteriorated infrastructure within the system as well as costs associated with meeting new state regulations.

ESPARTO COMMUNITY SERVICE DISTRICT

Management's Discussion and Analysis
June 30, 2004

Capital Assets

Capital Assets – The District's investment in capital assets as of June 30, 2004 amounted to \$2,160,804 (net of related debt). This investment in capital assets includes land, infrastructure, buildings and improvements, and equipment. More detail on capital assets can be found at Note 4 of this report.

Debt Administration

Long-Term Liabilities - At June 30, 2004, the District had total long-term liabilities of \$369,888 consisting of \$153,691 in notes payable, \$205,019 in capital leases, and \$11,178 in compensated absences. Additional information on the District's long-term liabilities can be found at Note 5 of this report.

Economic Factors and Next Year's Budget

The District operates and maintains sewage collections systems and treatment facilities for the Esparto General Plan Area as well as producing and distributing potable water to 673 accounts in Esparto with a population of just under 3,000.

The District continues to pursue loan funding in the estimated amount of \$5.4 million from United States Department of Agriculture Rural Development in order to complete repairs and replacement of portions of our infrastructure as required by the State of California. Of this sum, approximately \$1.4 million will go toward the wastewater system and approximately \$4 million will fund water related repairs and upgrades.

Upon the awarding of this loan, the District will put the rate increase stipulated in Ordinances 14 and 15 into effect to begin repaying the final loan amounts.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Esparto Community Services District, General Manager/Superintendent, David Herbst, P.O. Box 349, 16960 Yolo Avenue, Esparto CA, 95627.

ESPARTO COMMUNITY SERVICES DISTRICT

Statement of Net Assets
June 30, 2004

ASSETS

Current Assets:	
Cash and investments	\$ 161,009
Imprest cash	525
Accounts receivable	10,239
Taxes receivable	155
Deposits with others	1,562
Total Current Assets	<u>173,490</u>
Noncurrent Assets:	
Restricted cash	518,150
Capital assets, net of accumulated depreciation:	
Nondepreciable	287,475
Depreciable	<u>2,232,039</u>
Total Assets	<u>\$ 3,211,154</u>

LIABILITIES

Current Liabilities:	
Accounts payable	\$ 18,615
Accrued payroll	9,528
Accrued interest	7,464
Deferred revenue	268,034
Current portion of compensated absences	11,178
Current portion of capital lease obligation	21,097
Total Current Liabilities	<u>335,916</u>
Noncurrent Liabilities:	
Noncurrent portion of loans payable	153,691
Noncurrent portion of capital lease obligation	183,922
Total Noncurrent Liabilities	<u>337,613</u>
Total Liabilities	<u>673,529</u>

NET ASSETS

Invested in capital assets, net of related debt	2,160,804
Unrestricted	<u>376,821</u>
Total Net Assets	<u>2,537,625</u>
Total Liabilities and Net Assets	<u>\$ 3,211,154</u>

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

ESPARTO COMMUNITY SERVICES DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Year Ended June 30, 2004

Operating Revenues:	
Charges for services	\$ 320,158
Total Operating Revenues	<u>320,158</u>
Operating Expenses:	
Salaries and benefits	175,779
Services and supplies	411,929
Depreciation	<u>32,642</u>
Total Operating Expenses	<u>620,350</u>
Operating income (loss)	<u>(300,192)</u>
Nonoperating revenue:	
Property tax revenue	31,455
Other governmental aid	1,505
Interest income	3,373
Interest expense	(19,218)
Development fees	167,775
Other	<u>48</u>
Total Nonoperating Revenue	<u>184,938</u>
Income (Loss) Before Contributions	(115,254)
Capital Contributions	<u>231,779</u>
Change in Net Assets	116,525
Net Assets, Beginning of Year	2,460,448
Prior period adjustment	<u>(39,348)</u>
Net Assets, Restated - Beginning of Year	2,421,100
Net Assets, End of Year	<u><u>\$ 2,537,625</u></u>

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

ESPARTO COMMUNITY SERVICES DISTRICT

Statement of Cash Flows For the Fiscal Year Ended June 30, 2004

Cash Flows from Operating Activities:	
Receipts from customers	\$ 315,413
Payments to suppliers	(417,181)
Payments to employees	(164,447)
Net Cash Provided (Used) by Operating Activities	<u>(266,215)</u>
Cash Flows from Capital and Related Financing Activities:	
Fees received from developers	49,105
Proceeds from loans	62,943
Principal payment on capital leases	(19,904)
Interest payments on loans and capital leases	(11,754)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>80,390</u>
Cash Flows from Noncapital Financing Activities:	
Property taxes received	32,035
Payments received from other governments	1,505
Other	48
Net Cash Provided (Used) by Noncapital Financing Activities	<u>33,588</u>
Cash Flows from Investing Activities:	
Interest received	<u>3,373</u>
Net Cash Provided by Investing Activities	<u>3,373</u>
Net increase (decrease) in cash and cash equivalents	(148,864)
Cash and Cash Equivalents - Beginning of Year	<u>828,548</u>
Cash and Cash Equivalents - End of Year	<u>\$ 679,684</u>
Cash and Cash Equivalents - End of Year consisted of:	
Cash and investments	\$ 161,009
Imprest cash	525
Restricted cash	518,150
Total Cash and Cash Equivalents	<u>\$ 679,684</u>

continued

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

ESPARTO COMMUNITY SERVICES DISTRICT

Statement of Cash Flows (continued)
For the Fiscal Year Ended June 30, 2004

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Net operating income (loss)	\$ (300,192)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation	32,642
Changes in operating assets and liabilities:	
Accounts receivable	(4,745)
Accounts payable	(5,252)
Accrued payroll	3,754
Liability for compensated absences	<u>7,578</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (266,215)</u>

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

ESPARTO COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Esparto Community Service 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 and waste disposal, and lighting service to the community of Esparto and surrounding areas. The District is governed by a five member Board of Directors who are elected by voters living within the District's boundaries.

B. Basis of Presentation

The accounts of the District are organized and operated on the basis of funds and account groups. Fund accounting is designed to demonstrate legal compliance and aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

The District uses an enterprise fund, which is a type of proprietary fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private enterprises, where the intent is that costs of providing goods or service to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the accounting period in which they are incurred, regardless of timing of related cash flows. Property taxes are recognized in the year in which levied. Grants and similar items are recognized as revenues as soon as eligibility requirements have been met.

ESPARTO COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies** (continued)

C. Basis of Accounting (continued)

Operating revenues include charges for water, sewer, waste disposal and lighting services and result from exchange transactions associated with the principal activities of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as grants and investment earnings, result from nonexchange transactions or ancillary activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds. The District has elected not to follow subsequent private-sector guidance.

D. Implementation of Governmental Accounting Standards Board Statements

GASB Statements Nos. 33 and 36

In December 1998 and in April 2000, the Governmental Accounting Standards Board (GASB) issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues – an amendment of GASB Statement No. 33*, respectively. These statements establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations).

GASB Statement Nos. 34 and 37

In June 1999 and in June 2001, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments – Omnibus*, respectively. These statements provide for the most significant change in financial reporting in over twenty years and are scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2002. These statements require the presentation of net assets rather than retained earnings and also established new formats for both the balance sheet and the statement of revenues and expenses. As part of these statements, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.). As a proprietary fund, the District has included this information in the accompanying financial statements.

ESPARTO COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies** (continued)

D. Implementation of Governmental Accounting Standards Board Statements
(continued)

GASB Statement No. 38

In June 2001, the GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, adds and deletes various note disclosure requirements. Those requirements address revenue recognition policies, actions taken in response to legal violations, debt service requirements, variable-rate debt, receivable and payable balances, interfund transfers and balances, and short-term debt.

GASB Interpretation No. 6

In March 2000, the GASB issued Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

As required, the District has implemented GASB Statements Nos. 33, 34, 36, 37 and 38 and Interpretation No. 6 and these statements are presented according to those requirements. These statements require the presentation of net assets rather than retained earnings and also established new formats for both the balance sheet and the statement of revenues and expenses. The District adopted these statements for the year ended June 30, 2004.

E. Property Taxes

Yolo County, through the Auditor-Controller's Office and the Treasurer-Tax Collector, is responsible for collecting and distributing property taxes according to the alternative method of distribution known as the Teeter Plan. Under the Teeter Plan, the current year's secured property tax levy is distributed to participating agencies within the County without consideration of whether the tax has been collected.

E. Cash

For purpose of the Statement of Cash Flows, the total of restricted and unrestricted cash comprises cash and cash equivalents. Cash equivalents are defined as all cash and investments with maturities of 90 days or less and the District's investment in the County of Yolo's pooled cash and investments.

ESPARTO COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies** (continued)

F. Accounts Receivable

Accounts receivable are recorded at their gross value and, where appropriate, are reduced by the portion that is considered uncollectible. Accounts receivable consists primarily of service fees that have been billed but not paid as of year-end. Management believes its accounts receivable to be fully collectable and, accordingly, no allowance for doubtful accounts is necessary.

G. Property, Plant and Equipment

All fixed assets, including infrastructure, are capitalized by the District. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Purchased fixed assets are stated at cost. Donated fixed assets are valued at their estimated fair market value. Depreciation of exhaustible fixed assets is charged as an expense against operations. Fixed assets of the District are reported in the balance sheet net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the fixed assets as follows:

Water and sewer lines	50 to 75 years
Structures and improvements	5 to 50 years
Equipment and vehicles	5 to 25 years

H. Compensated Absences

The District allows its employees to accumulate up to 280 hours of vacation and sick leave. Any accumulated vacation and 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.

I. Net Assets

Net assets are displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

ESPARTO COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies** (continued)

I. **Net Assets** (continued)

- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted. As of June 30, 2004, the District did not have any restricted net assets.

J. **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2: **Cash**

A non-interest bearing checking account is used by the District as a temporary depository for user fees collected. A check is written from this bank account at least monthly, and the funds are deposited in the County Treasury. As of June 30, 2004, the outside checking account had a bank balance of \$44,917 and a book balance of \$48,372.

The District’s balances in the outside checking account, up to \$100,000, are insured by the Federal Deposit Insurance Corporation.

All of the District’s cash is ultimately deposited in the County Treasury. The County maintains a cash and investment pool that is available to all funds for which the County Treasury is the depository, for the purpose of increasing interest earnings through investment activities. In accordance with the requirements of the California State Government Code, a Treasury Oversight Committee has been formed to provide oversight for the County’s investment policy, and arranges for the annual audit of the cash and investment pool. Copies of the Treasurer-Tax Collector’s monthly reports and the annual audit report can be obtained from the Treasurer-Tax Collector’s Office.

The District’s cash and investments are stated at fair market value at June 30, 2004. Management has determined that the fair value of pooled cash and investments held by the District is not materially different from the cost (carrying value) of cash and investments and, accordingly, no adjustment has been made. Interest earned on the pooled funds is accrued and apportioned quarterly, based upon the average daily balance of each fund.

ESPARTO COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 3: **Restricted Cash**

The balance in restricted cash is comprised of the following at June 30, 2004:

Developer fees	268,034
Equipment purchase	76,019
Land purchase	364
CDBG loan/grant	173,728
RCAC loan	<u>5</u>
	<u>\$ 518,150</u>

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. Developer fees are recorded as deferred revenue at the time of receipt. Revenue is not recorded until developer fees are actually spent by the District.

Note 4: **Property, Plant and Equipment**

The District's property, plant and equipment at June 30, 2004 are summarized below:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Adjustments</u>	<u>June 30, 2004</u>
Capital assets, not being depreciated:				
Land	\$ 287,475	\$ --	\$ --	\$ 287,475
Total capital assets, not being depreciated	<u>287,475</u>	<u>--</u>	<u>--</u>	<u>287,475</u>
Capital assets, being depreciated:				
Structures and improvements	2,281,109	231,779	--	2,512,888
Equipment	<u>134,638</u>	<u>--</u>	<u>--</u>	<u>134,638</u>
Total capital assets, being depreciated	<u>2,415,747</u>	<u>231,779</u>	<u>--</u>	<u>2,647,526</u>
Less accumulated depreciation for:				
Structures and improvements	(329,609)	(26,731)	--	(356,340)
Equipment	<u>(52,255)</u>	<u>(5,911)</u>	<u>(981)</u>	<u>(59,147)</u>
Total accumulated depreciation	<u>(381,864)</u>	<u>(32,642)</u>	<u>(981)</u>	<u>(415,487)</u>
Total capital assets, being depreciated, net	<u>2,033,883</u>	<u>199,137</u>	<u>(981)</u>	<u>2,232,039</u>
Net Book Value	<u>\$ 2,321,358</u>	<u>\$ 199,137</u>	<u>\$ (981)</u>	<u>\$ 2,519,514</u>

ESPARTO COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 5: **Long-Term Debt**

The following is a summary of long-term liabilities transactions for the year ended June 30, 2004:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Note payable	\$ 90,748	\$ 62,943	\$ --	\$ 153,691	\$ --
Capital leases	224,923	--	19,904	205,019	21,097
Compensated absences	<u>3,600</u>	<u>7,578</u>	<u>--</u>	<u>11,178</u>	<u>11,178</u>
Total Long-Term Liabilities	<u>\$ 319,271</u>	<u>\$ 70,521</u>	<u>\$ 19,904</u>	<u>\$ 369,888</u>	<u>\$ 32,275</u>

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, 2004, annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>June 30:</u>	<u>Loan Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ --	\$ --
2006	11,416	5,099
2007	5,623	2,303
2008	5,794	2,132
2009	5,971	1,956
2010-2014	32,689	6,943
2015-2018	<u>29,255</u>	<u>1,788</u>
Total	<u>\$ 90,748</u>	<u>\$ 20,221</u>

RCAC Loans Payable

In June of 2004, the District obtained two bridge loans from the Rural Community Assistance Corporation (RCAC), a loan for the Esparto Water Improvement Project and a loan for the Esparto Sewer Improvement Project. The District was approved for \$50,000 for each loan. However, as of June 30, 2004, only \$46,977 had been borrowed for the Esparto Water Improvement Project and \$15,966 had been borrowed for the Esparto Sewer Improvement Project. The interest rate on these loans is 5%. The loans mature on June 1, 2006 at which time the total amount due on these loans including principal and interest will be paid.

ESPARTO COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 6: **Capital Leases**

In April 2002, the District leased a 500,000 gallon tank and related equipment. The first payment was due on October 13, 2002. The asset and related obligation have been recorded using the interest rate implicit in the lease. The lease expires on October 13, 2011. The cost of the tank and related equipment is \$250,000.

Equipment and related accumulated depreciation under capital leases as of June 30, 2004 are as follows:

Equipment	\$ 250,000
Less: accumulated depreciation	<u>(8,333)</u>
	<u>\$ 241,667</u>

Future minimum lease payments under capital leases together with the present value of minimum lease payments as of June 30, 2004 are as follows:

<u>Year Ending June 30</u>	
2005	\$ 31,576
2006	31,576
2007	31,576
2008	31,576
2009	31,576
2010-2012	<u>94,725</u>
Total Future Minimum Lease Payments	252,605
Less: Interest	<u>(47,586)</u>
Present Value of Minimum Lease Payments	<u>\$ 205,019</u>

Note 7: **Defined Benefit Pension Plan**

A. Plan Description

The District's defined benefit pension plan, Esparto Community Service District Pension Plan, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Esparto Community Service District Pension Plan is part of the Public Agencies portion of the California Public Employees' Retirement System (CalPERS), 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 District selects optional benefits provisions from the benefit menu by contract with CalPERS.

ESPARTO COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 7: **Defined Benefit Pension Plan** (continued)

A. **Plan Description** (continued)

The District's contributions to PERS are made on behalf of its own permanent employees, and the permanent employees it shares with the Esparto Fire Protection District. The Esparto Fire Protection District is charged for the portion of the PERS contribution that relates to its payroll for the covered employees.

Under the option the District has selected, all full and part-time permanent District and Esparto Fire Protection District employees and extra help employees who have worked over 1,000 hours in a fiscal year are required to participate in the Esparto Community Service District Pension Plan. Per diem employees and extra help employees working less than 1,000 hours in a fiscal year are excluded. Benefits vest after five years of service. To be eligible for retirement, an employee must be at least 50 years of age and have five years of PERS credited service. Employees who retire at age 60 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2% of their average monthly pay rate for the last consecutive 36 months of employment, for each year of credited service up to 37 ½ years.

CalPERS issues separate comprehensive annual financial reports. Copies of the CalPERS' annual report may be obtained from CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

B. **Funding Policy**

Active plan members in the Esparto Community Service District Pension Plan are required to contribute 7% of their annual salary. The employee contributions are paid for by the employee. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. State statute and the employer's contribution rate are established and may be amended by CalPERS.

C. **Annual Pension Cost**

For fiscal year 2004, the District's annual pension cost was \$12,287. The required contributions for fiscal year 2004 was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuaries cost method with contributions determined as a percent of pay. The actuarial assumptions including (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20%. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of the Esparto Community Service District Pension Plan's assets were determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or

ESPARTO COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 7: **Defined Benefit Pension Plan** (continued)

C. **Annual Pension Cost** (continued)

losses. Esparto Community Service District Pension Plan's unfunded actuarial accrued liability (or excess asset) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2003 was 12 years.

Three Year Trend Information for the
Esparto Community Service District Pension Plan

<u>Fiscal Year Ending June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	6,629	100%	--
2003	6,153	100%	--
2004	12,287	100%	--

Note 8: **Risk Management**

The District is potentially subject to several types of losses, including destruction of its property, plant and equipment, and claims filed against the District, its employees and/or its Board of Directors. The District has purchased insurance policies covering the District's insurable fixed assets, general liability, workers compensation, and errors and omissions.

Note 9: **Prior Period Adjustment**

A prior period adjustment of -\$38,367 was made to adjust deferred revenue to include interest earned on the related restricted cash in prior periods. In addition, a prior period adjustment of -\$981 was recorded to adjust for an error in the calculation of accumulated depreciation in a prior period.

Note 10: **Subsequent Events**

RCAC loan

In November 2004, the District received additional funding of \$30,000 from RCAC against the \$50,000 that was initially approved for the Esparto Sewer Improvement Project. (See Note 5, Long-Term Debt). The interest rate on this loan is 5% and the loan will mature on June 1, 2006 along with the remainder of the Esparto Sewer Improvement loan.

ESPARTO COMMUNITY SERVICES DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 10: **Subsequent Events** (continued)

Agreement with Castle Companies

In January 2005, the District entered into an agreement with Castle Companies, a developer, in which Castle Companies agreed to construct infrastructure for the District in lieu of paying developer fees during the period of construction. The infrastructure will be contributed to the District upon completion. The cost of the project is estimated to be \$652,627.

REQUIRED SUPPLEMENTARY INFORMATION

ESPARTO COMMUNITY SERVICE DISTRICT

Required Supplementary Information
June 30, 2004

SCHEDULE OF FUNDING PROGRESS

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll.

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/01	\$ 451,900	\$ 510,259	\$ (58,359)	112.9%	\$ 104,755	(55.7)%
6/30/02	441,821	464,702	(22,881)	105.2%	52,270	(43.8)%
6/30/03	484,213	447,710	36,503	92.5%	106,077	34.4%

SUPPLEMENTARY INFORMATION

ESPARTO COMMUNITY SERVICES DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets - by Service Type
For the Fiscal Year Ended June 30, 2004

	Water Services	Sewer Services	Total
Operating Revenues:			
Charges for services	\$ 177,131	\$ 119,412	\$ 296,543
Charges for services - lighting and other	11,808	11,808	23,615
Total Operating Revenues	<u>188,939</u>	<u>131,220</u>	<u>320,158</u>
Operating Expenses:			
Salaries and benefits	87,890	87,890	175,779
Services and supplies	261,561	150,368	411,929
Depreciation	16,321	16,321	32,642
Total Operating Expenses	<u>365,772</u>	<u>254,579</u>	<u>620,350</u>
Operating income (loss)	<u>(176,833)</u>	<u>(123,359)</u>	<u>(300,192)</u>
Nonoperating revenue:			
Property tax revenue	15,728	15,728	31,455
Other governmental aid	753	753	1,505
Interest income	1,687	1,687	3,373
Interest expense	(19,196)	(22)	(19,218)
Development fees	83,888	83,888	167,775
Other	24	24	48
Total Nonoperating Revenue	<u>82,882</u>	<u>102,056</u>	<u>184,938</u>
Income (Loss) Before Contributions	<u>(93,951)</u>	<u>(21,303)</u>	<u>(115,254)</u>
Capital Contributions	<u>--</u>	<u>231,779</u>	<u>231,779</u>
Change in Net Assets	<u>(93,951)</u>	<u>210,476</u>	<u>116,525</u>
Net Assets, Beginning of Year	1,230,224	1,230,224	2,460,448
Prior period adjustment	<u>(19,674)</u>	<u>(19,674)</u>	<u>(39,348)</u>
Net Assets, Restated - Beginning of Year	1,210,550	1,210,550	2,421,100
Net Assets, End of Year	<u>\$ 1,116,599</u>	<u>\$ 1,421,026</u>	<u>\$ 2,537,625</u>

OTHER REPORT

Bartig, Basler & Ray

A Professional Corporation

Certified Public Accountants and Management Consultants

Frank V. Trythall
Brad W. Constantine
Bruce W. Stephenson
Roseanne M. Lopez
Jason J. Cardinet
Tyler K. Hunt

Curtis A. Orgill
M. Elba Zuniga

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*

To the Board of Directors
Esparto Community Service District
Esparto, California

We have audited the financial statements of the Esparto Community Services District (District) as of and for the year ended June 30, 2004, and have issued our report thereon dated May 2, 2005. 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

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's 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*.

Board of Directors
Esparto Community Service District
Esparto, California

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig, Basler & Ray, CPAs, Inc.

May 2, 2005
Roseville, California