ESPARTO COMMUNITY SERVICE DISTRICT

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2005

ESPARTO COMMUNITY SERVICE DISTRICT
AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2005

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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, 2005, 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, 2005 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.

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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 accounting principles generally accepted in the United States of America. 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 January 30, 2006 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.

January 30, 2006
Roseville, California

ESPARTO COMMUNITY SERVICE DISTRICT

Management's Discussion and Analysis
June 30, 2005

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, 2005. 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, 2005

FINANCIAL HIGHLIGHTS

On June 30, 2005 the assets of the District exceeded its liabilities by $2,492,693 (net assets). Of this amount $464,381 (unrestricted net assets) may be used to meet the District's ongoing obligations to its citizens and creditors and $2,028,312 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

	2005	2004	Variance
Current assets	$ 262,088	$ 173,490	51.07%
Restricted cash	496,938	518,150	(4.09)%
Capital assets	2,392,053	2,519,514	(5.06)%
Total Assets	3,151,079	3,211,154	(1.87)%
Current liabilities	419,379	335,916	24.85%
Non-current liabilities	239,007	337,613	(29.21)%
Total Liabilities	658,386	673,529	(2.25)%
Net Assets:			
Invested in capital assets, net of related debt	2,028,312	2,160,804	(6.13)%
Unrestricted	464,381	376,821	23.24%
Total Net Assets	$ 2,492,693	$ 2,537,625	(1.77)%

As shown in the schedule above, at June 30, 2005, the District's total assets are $3,151,079. The total assets held decreased $60,075 from the June 30, 2004 balance. The total liabilities decreased by $15,143 or 2.25% from the prior year. The District's net assets at June 30, 2005 decreased from the prior year by 1.77% or $44,932.

Unrestricted net assets of the District at June 30, 2005 amounted to $464,381. This was an increase from the prior year amount of $376,821. In relation, the investment in capital assets decreased to $2,028,312 form the prior year amount of $2,160,804. This total decrease in net assets was $132,492 and is related to the depreciation of asset costs over their useful lives.

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

	2005	2004	Variance
Revenues:			
Operating revenues	$ 557,108	$ 320,158	74.01%
Non-operating revenues	86,959	204,156	(57.41)%
Total Revenues	644,067	524,314	22.84%
Expenses:			
Operating expenses	610,531	620,350	(1.58)%
Non-operating expenses	17,126	19,219	(10.89)%
Total Expenses	627,657	639,569	(1.86)%
Income (Loss) Before Contributions	16,410	(115,255)	114.24%
Capital Contributions	--	231,779	(100.00)%
Change in Net Assets	16,410	116,524	(85.92)%
Net Assets – Restated, Beginning	2,476,283	2,421,100	2.28%
Net Assets – Ending	$ 2,509,103	$ 2,654,148	(5.46)%

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 2004-05 increased by 74.01%. 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.

Expenses – The District's expenses for Fiscal Year 2004-05 decreased by 1.86%. 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 having been included in prior year expenses.

Capital Assets

Capital Assets – The District's investment in capital assets as of June 30, 2005 amounted to $2,028,312 (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, 2005, the District had total long-term liabilities of $239.007 consisting of $79,332 in notes payable and capital leases, and $159,675 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 752 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, Ron Loudon, P.O. Box 349, 16960 Yolo Avenue, Esparto CA, 95627.

ESPARTO COMMUNITY SERVICES DISTRICT

Statement of Net Assets
June 30, 2005

ASSETS	
Current Assets:	
Cash and investments	$ 237,622
Imprest cash	525
Accounts receivable	22,379
Deposits with others	1,562
Total Current Assets	262,088
Noncurrent Assets:	
Restricted cash	496,938
Capital assets, net of accumulated depreciation:	
Nondepreciable	287,475
Depreciable	2,104,578
Total Assets	$ 3,151,079
LIABILITIES	
Current Liabilities:	
Accounts payable	$ 29,505
Accrued payroll	9,783
Accrued interest	7,200
Deferred revenue	220,257
Current portion of compensated absences	27,900
Current portion of long-term debt	124,734
Total Current Liabilities	419,379
Noncurrent Liabilities:	
Noncurrent portion of loans payable	79,332
Noncurrent portion of capital lease obligation	159,675
Total Noncurrent Liabilities	239,007
Total Liabilities	658,386
NET ASSETS	
Invested in capital assets, net of related debt	2,028,312
Unrestricted	464,381
Total Net Assets	2,492,693
Total Liabilities and Net Assets	$ 3,151,079

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, 2005

Operating Revenues:	
Charges for services	$ 557,108
Total Operating Revenues	557,108
Operating Expenses:	
Salaries and benefits	212,241
Services and supplies	332,171
Depreciation	66,119
Total Operating Expenses	610,531
Operating income (loss)	(53,423)
Nonoperating revenue (expense):	
Property tax revenue	10,689
Interest income	16,273
Interest expense	(17,126)
Development fees	51,444
Other	8,553
Total Nonoperating Revenue	69,833
Change in Net Assets	16,410
Net Assets, Beginning of Year	2,537,625
Prior period adjustment	(61,342)
Net Assets, Restated - Beginning of Year	2,476,283
Net Assets, End of Year	$ 2,492,693

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, 2005

Cash Flows from Operating Activities:		
Receipts from customers	$	545,123
Payments to suppliers		(321,281)
Payments to employees		(195,264)
Net Cash Provided (Used) by Operating Activities		28,578
Cash Flows from Capital and Related Financing Activities:		
Fees received from developers		3,667
Proceeds from loans		30,000
Principal payment on loans and capital leases		(29,248)
Interest payments on loans and capital leases		(13,266)
Net Cash Provided (Used) by Capital and Related Financing Activities		(8,847)
Cash Flows from Noncapital Financing Activities:		
Property taxes received		10,844
Other		8,553
Net Cash Provided (Used) by Noncapital Financing Activities		19,397
Cash Flows from Investing Activities:		
Interest received		16,273
Net Cash Provided by Investing Activities		16,273
Net increase (decrease) in cash and cash equivalents		55,401
Cash and Cash Equivalents - Beginning of Year		679,684
Cash and Cash Equivalents - End of Year	$	735,085
Cash and Cash Equivalents - End of Year consisted of:		
Cash and investments	$	237,622
Imprest cash		525
Restricted cash		496,938
Total Cash and Cash Equivalents	$	735,085

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, 2005

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Net operating income (loss)	$	(53,423)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation		66,119
Changes in operating assets and liabilities:		
Accounts receivable		(11,985)
Accounts payable		10,890
Accrued payroll		255
Liability for compensated absences		16,722
Net Cash Provided (Used) by Operating Activities	$	28,578

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

Note 1: **Summary of Significant Accounting Policies**

A. **Reporting Entity**

The financial statements of the Esparto Community Services (District) are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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 and Accounting**

The accompanying basic financial statements of the District are prepared on the accrual basis method of accounting in accordance with generally accepted accounting principles as applicable to governmental units. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

All activities of the District are accounted for within a single enterprise fund. Enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

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

B. **Basis of Presentation and Accounting** (continued)

Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. In accordance with GASB No. 33, *Accounting and Reporting for Nonexchange Transactions*, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and resources are available. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied and the resources are available.

When both restricted aud unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

C. **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.

D. **Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with an initial maturity of 90 days or less to be cash equivalents. The District's "Cash in County Treasury" is pooled with the County Treasury investment pool and are, in substance, demand deposits and are, therefore, considered cash equivalents for purposes of the statement of cash flows.

Disclosures in accordance with Government Accounting Standards Board statements are included in the basic financial statements of the County.

E. **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.

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

F. **Capital Assets**

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

G. **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.

H. **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.

- 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, 2005, the District did not have any restricted net assets.

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

l. **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 and Investments**

The District maintains various cash and investment accounts with banks and the Yolo County Treasurer.

At June 30, 2005, total District cash and investments at fair value were as follows:

Cash:	
Imprest cash	$ 525
Restricted cash (see Note 3)	496,938
Checking account	45,592
Total cash	543,055
Investments:	
County Pooled Treasury	192,030
Total investments	192,030
Total cash and investments	$ 735,085

Investments

The District's investment policy does not define criteria for selecting acceptable financial institutions, brokers/dealers, or allowable investment types as defined by Government Code 53635.

At June 30, 2005, the District had the following investments:

	Interest Rates	Maturities	Par	Cost	Fair Value	WAM (Years)
Investments						
Cash in County Pooled Treasury	Variable	On Demand	$ 192,030	$ 192,030	$ 192,030	--
Total investments, unrestricted			$ 192,030	$ 192,030	$ 192,030	--

Note 2: **Cash and Investments** (continued)

Investments (continued)

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, 2005, the outside checking account had a bank balance of $35,902 and a book balance of $45,592.

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

All of the District's cash is ultimately deposited in the Yolo 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.

On a quarterly basis the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Yolo's financial statements may be obtained by contacting the County of Yolo's Auditor-Controller's office at P.O. Box 1268, Woodland, CA. The Yolo County Treasury Oversight Committee oversees the Treasurer's investments and policies.

Government Accounting Standards Board Statement No. 40, effective for fiscal years ending June 30, 2005, requires additional disclosures about a government's deposits and investment risks that include credit risk, custodial risk, concentration risk and interest rate risk. The District has no deposit or investment policy that addresses a specific type of risk.

Required disclosures for the District's deposit and investment risks at June 30, 2005, were as follows:

Credit risk	Not rated
Custodial risk	N/A
Concentration of credit risk	N/A
Interest rate risk	Not available

Note 3: **Restricted Cash**

The balance in restricted cash is comprised of the following at June 30, 2005:

Developer fees	$ 220,257
Equipment purchase	98,893
Land purchase	372
CDBG loan/grant	177,350
RCAC bridge loan	66
	$ 496,938

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: **Capital Assets**

The District's capital assets at June 30, 2005 are summarized below:

	July 1, 2004	Additions	Adjustments	June 30, 2005
Capital assets, not being depreciated:				
Land	$ 287,475	$ --	$ --	$ 287,475
Total capital assets, not being depreciated	287,475	--	--	287,475
Capital assets, being depreciated:				
Structures and improvements	2,512,888	--	--	2,512,888
Equipment	134,638	--	--	134,638
Total capital assets, being depreciated	2,647,526	--	--	2,647,526
Less accumulated depreciation for:				
Structures and improvements	(356,340)	(60,209)	(61,342)	(477,891)
Equipment	(59,147)	(5,910)	--	(65,057)
Total accumulated depreciation	(415,487)	(66,119)	(61,342)	(542,948)
Total capital assets, being depreciated, net	2,232,039	(66,119)	(61,342)	2,104,578
Net Book Value	$ 2,519,514	$ (66,119)	$ (61,342)	$ 2,392,053

Note 5: **Long-Term Debt**

The following is a summary of long-term liabilities transactions for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Amounts Due Within One Year
Note payable – CDBG	$ 90,748	$ --	$ (5,957)	$ 84,791	$ 5,459
Note payable – RCAC	62,943	34,279	--	97,222	97,222
Capital leases	205,019	--	(23,291)	181,728	22,053
Compensated absences	11,178	16,722	--	27,900	27,900
Total Long-Term Liabilities	$ 369,888	$ 51,001	$ (29,248)	$ 391,641	$ 152,634

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, 2005, annual debt service requirements to maturity are as follows:

Year Ending June 30:	Loan Payable Principal	Loan Payable Interest
2006	$ 5,459	$ 2,739
2007	5,623	2,304
2008	5,794	2,132
2009	5,971	1,956
2010	6,152	1,774
2011-2015	33,684	5,948
2016-2019	22,108	1,008
Total	$ 84,791	$ 17,861

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, 2005, only $47,808 had been borrowed for the Esparto Water Improvement Project and $49,414 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.

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, 2005 are as follows:

Equipment	$	250,000
Less: accumulated depreciation		16,667
	$	233,333

Future minimum lease payments under capital leases together with the present value of minimum lease payments as of June 30, 2005 are as follows:

Year Ending June 30		
2006	$	31,576
2007		31,576
2008		31,576
2009		31,576
2010		31,576
2011-2012		63,149
Total Future Minimum Lease Payments		221,029
Less: Interest		(39,301)
Present Value of Minimum Lease Payments	$	181,728

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.

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 2005, the District's annual pension cost was $6,169. The required contributions for fiscal year 2005 was determined as part of the June 30, 2002 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

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

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

and/or 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, 2002 was 22 years.

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

Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	$ 6,153	100%	$ --
2004	12,287	100%	--
2005	6,169	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: **Subsequent Events**

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 approximately $600,000. As of June 30, 2005, this project had not been completed.

Note 10: **Prior Period Adjustment**

A prior period adjustment of -$61,342 was recorded to adjust for an error in the calculation of accumulated depreciation in a prior period.

REQUIRED SUPPLEMENTARY INFORMATION

ESPARTO COMMUNITY SERVICE DISTRICT

Required Supplementary Information
June 30, 2005

FUNDING STATUS – CALPERS

Funded Status of CalPERS Plan

This information is no longer available for the plan. Information is available on a pooled-basis only and can be obtained from CalPERS, P.O. Box 942709, Sacramento, CA 94229-2709.

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, 2005

	Water Services	Sewer Services	Total
Operating Revenues:			
Charges for services	$ 311,025	$ 209,736	$ 520,761
Charges for services - lighting and other	18,174	18,173	36,347
Total Operating Revenues	329,199	227,909	557,108
Operating Expenses:			
Salaries and benefits	106,121	106,120	212,241
Services and supplies	215,911	116,260	332,171
Depreciation	15,912	50,207	66,119
Total Operating Expenses	337,944	272,587	610,531
Operating income (loss)	(8,745)	(44,678)	(53,423)
Nonoperating revenue (expense):			
Property tax revenue	5,344	5,345	10,689
Interest income	8,137	8,136	16,273
Interest expense	(15,283)	(1,843)	(17,126)
Development fees	25,722	25,722	51,444
Other	4,277	4,276	8,553
Total Nonoperating Revenue	28,197	41,636	69,833
Change in Net Assets	19,452	(3,042)	16,410
Net Assets, Beginning of Year	1,116,599	1,421,026	2,537,625
Prior period adjustment	(30,671)	(30,671)	(61,342)
Net Assets, Restated - Beginning of Year	1,085,928	1,390,355	2,476,283
Net Assets, End of Year	$ 1,105,380	$ 1,387,313	$ 2,492,693

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, 2005, and have issued our report thereon dated January 30, 2006. 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*.

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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.

January 30, 2006
Roseville, California