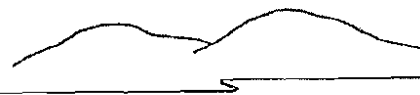


**ESPARTO COMMUNITY SERVICE DISTRICT**  
**FINANCIAL STATEMENTS**  
**AUDIT REPORT**  
**June 30, 2010**



June 8, 2011

Esparto Community Service District  
PO Box 349  
Esparto, CA 95627

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities and the aggregate fund information of Esparto Community Service District as of and for the year then ended, June 30, 2010, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Esparto Community Service District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 respective financial position of the governmental activities and the aggregate remaining fund information of the Esparto Community Service District as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 8, 2011, 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. The 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.

The management's discussion and analysis information and the supplemental information 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 principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Pehling & Pehling CPAs  
An Accountancy Corporation

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Audit Report  
June 30, 2010**

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Financial Statements	
Statement of Net Assets.....	8
Statement of Activities.....	9
Statement of Revenues and Expenditures.....	10
Statement of Cash Flows.....	12
Notes to Financial Statements.....	13
Supplemental Information	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	22
General Fund –Budget versus Actual .....	24
Schedule of Findings and Recommendations.....	25

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Management's Discussion and Analysis  
For the year ended June 30, 2010**

The intent of the management's discussion and analysis is to provide highlights of the Esparto Community Service District's financial activities for the fiscal year ended June 30, 2010.

**The District's Operations – an Overview**

The District operates under the authority of the California Health and Safety Code. Major activities include providing water, sewer, lighting service to the Esparto area.

***FINANCIAL HIGHLIGHTS***

The District provides water, sewer, and lighting services to the community of Esparto. Commercial and residential units pay a fee based on usage of water and sewer. In addition they are charged a fee to provide street lighting to the community of Esparto. Due to new construction and population growth the District has been working towards increased service capacity with numerous capital projects being started. To fund these operations the District has raised monthly fees, which have resulted in an increase in operating revenues.

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 are depreciated over their useful lives.

The District was awarded a Federal USDA loan to pay for water and sewer capacity expansion. As such the District has used the money to pay for \$5,393,269 of capacity expansion.

During the audit year, the district has increased its equipment available to provide future services by \$22,658. During the current year the water and sewer projects were completed.

Capital Assets Available – 2009	\$7,481,182	
Capital Assets Available – 2010	<u>7,503,840</u>	
Increase in Capital Assets Available – 2010		<u>\$ 22,658</u>
Cash Available – 2009	\$1,085,411	
Cash Available – 2010	<u>1,045,295</u>	
Decrease in Cash Available – 2010		<u>\$ (40,116)</u>

**Basis of Accounting**

The District's financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**ESPARTO COMMUNITY SERVICE DISTRICT**

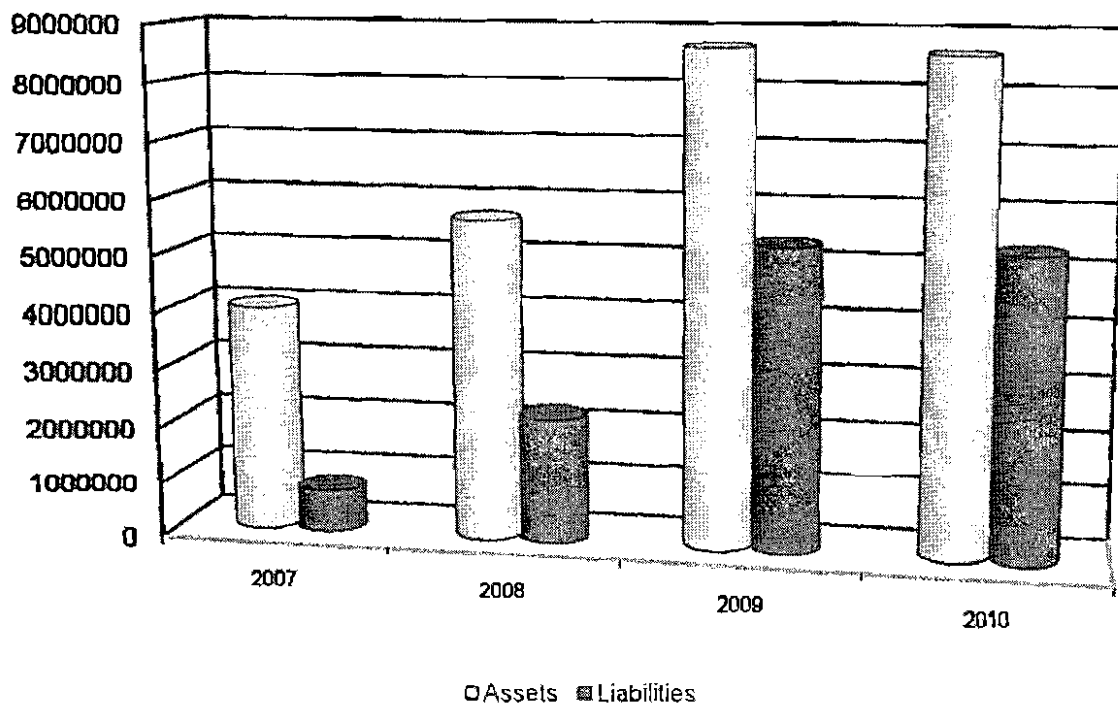
**Management's Discussion and Analysis  
For the year ended June 30, 2010**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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 whether the financial position of the District is improving or deteriorating.

**Statement of Net Assets**

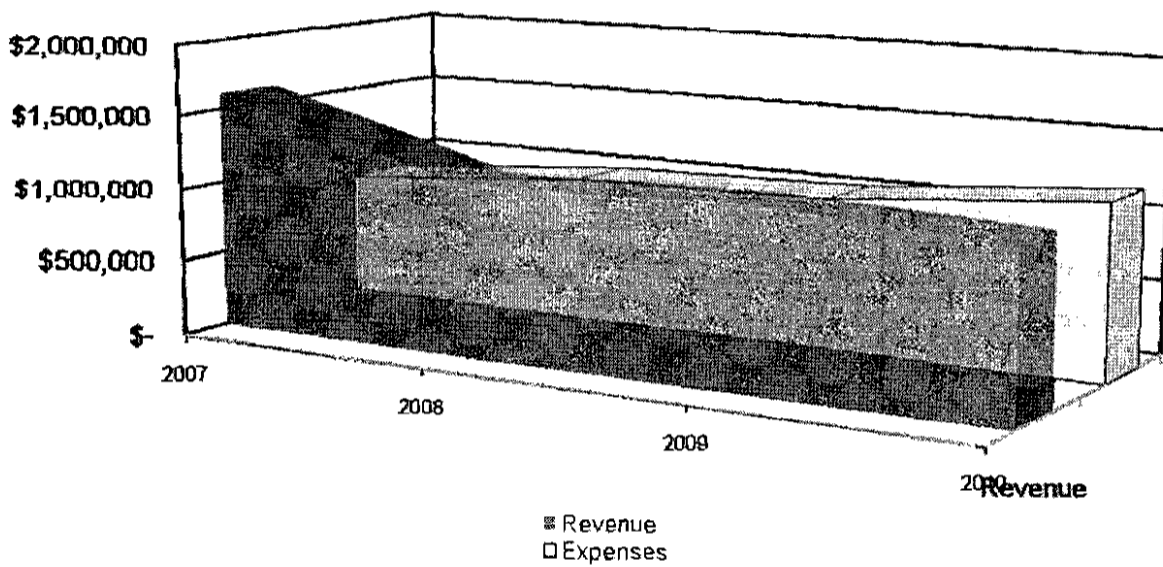


ESPARTO COMMUNITY SERVICE DISTRICT

Management's Discussion and Analysis  
For the year ended June 30, 2010

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods ( e.g., uncollected taxes and earned but unused vacation leave).

**Statement of Activities**

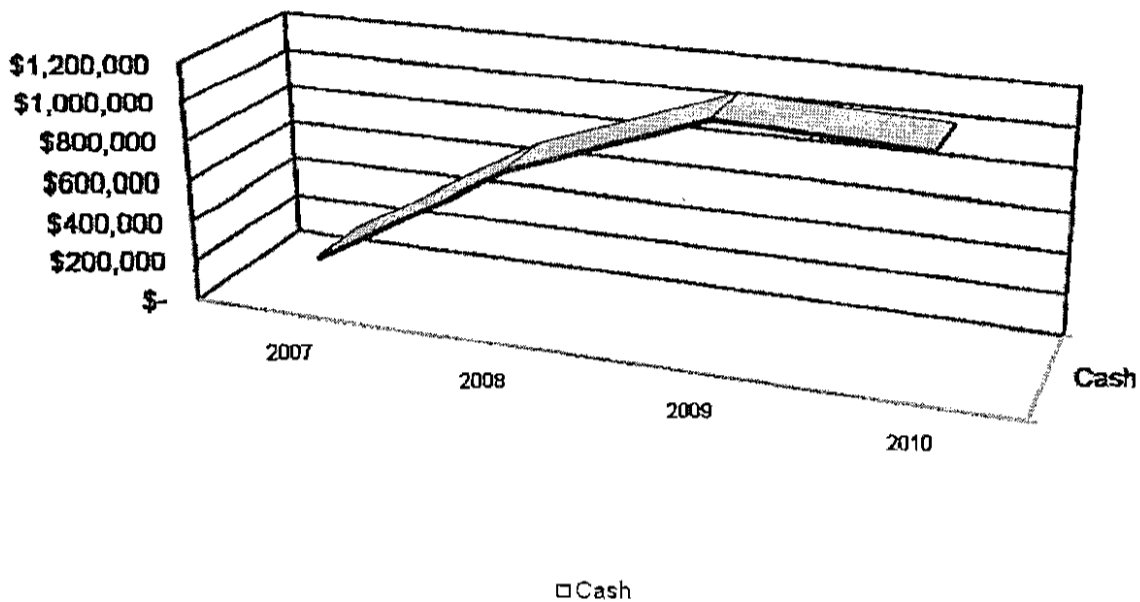


**ESPARTO COMMUNITY SERVICE DISTRICT**

**Management's Discussion and Analysis  
For the year ended June 30, 2010**

The *Statement of Cash Flows* presents information showing how the District's cash changed during the most recent fiscal year. Observing the cash balances at the District's year-end shows the funds available to meet current operating needs, pay current liabilities, and meet the amount of capital improvements required to carry on the District's activities and objectives.

**Statement of Cash Flow**



The government-wide financial statements report on the function of the District that is principally supported by Charges for Service. The District's function is to provide water to the Buckingham Area.

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

The District has capital assets (e.g. land, structures, and equipment). Any investment in capital assets would restrict the use of assets for future spending. The unrestricted net assets of the District are available for future use to provide program services.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Management's Discussion and Analysis  
For the year ended June 30, 2010**

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the District's budget for the 2010 fiscal year:

- Water Usage
- Actual expenditures for 2009

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all citizens, taxpayers, customers, investors, and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Esparto Community Service District, PO Box 349, Esparto, California 95627.



**ESPARTO COMMUNITY SERVICE DISTRICT**

**Statement of Net Assets**

**June 30, 2010**

**ASSETS:**

**Current Assets:**

Funds on Deposit, County of Yolo	\$	679,867
Reserved Funds for USDA		25,593
Restricted Funds on Deposit		203,548
Funds on Deposit, Bank		136,287
Accounts Receivable		59,201
		<hr/>
Total Current Assets		1,104,496

**Capital Assets:**

Land		287,475
Buildings and Improvements		7,898,876
Equipment		299,482
Less: Accumulated Depreciation		(981,992)
		<hr/>
Total Capital Assets		7,503,840

**TOTAL ASSETS** 8,608,337

**LIABILITIES:**

**Current Liabilities:**

Accounts Payable		54,274
Accrued Expenses		68,243
Deferred Revenue		54,579
Notes Payable - Current Portion		119,394
		<hr/>
Total Current Liabilities		296,490

**Long-Term Liabilities:**

Notes Payable		5,133,233
Notes Payable - Current Portion		(119,394)
		<hr/>
Total Long-Term Liabilities		5,013,839

**TOTAL LIABILITIES** 5,310,329

**NET ASSETS**

Investment in Capital Assets Net of Related Debt		2,370,607
Undesignated:		448,479
Reserved		126,896
Designated		352,025
		<hr/>
<b>TOTAL NET ASSETS</b>	<b>\$</b>	<b><u>3,298,007</u></b>

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

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Statement of Activities**

**For the Year-Ended**

**June 30, 2010**

	<b><u>Governmental Activities</u></b>
<b><u>OPERATING EXPENSES:</u></b>	
Depreciation	\$ 117,513
Supplies	6,131
Insurance	14,905
Travel & Training	19,915
Office	9,272
Salaries and Benefits	514,054
Professional Fees	72,173
Utilities	106,850
Maintenance & Small Tools	77,692
Miscellaneous	22,040
<b>TOTAL EXPENSES</b>	<b><u>960,546</u></b>
<b><u>OPERATING REVENUES</u></b>	
Development Fees	-
Charges for Service	1,053,062
Misc. Revenues	222
<b>TOTAL OPERATING REVENUES</b>	<b><u>1,053,284</u></b>
<b>NET OPERATING REVENUE</b>	<b><u>92,738</u></b>
<b><u>NON-OPERATING REVENUES/EXPENSES</u></b>	
Taxes	44,682
Interest Expense	(209,074)
Interest	11,262
<b>NET NON-OPERATING REVENUES/EXPENSES</b>	<b><u>(153,130)</u></b>
<b>NET CHANGE IN NET ASSETS</b>	<b><u>(60,392)</u></b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b><u>3,358,399</u></b>
<b>NET ASSETS, END OF YEAR</b>	<b><u>\$ 3,298,007</u></b>

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

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Schedule of Revenues, Expenses & Change in Net Assets**  
**For the Year-Ended**  
**June 30, 2010**

	Major Fund 466	Minor Fund 469	Minor Fund 470	Minor Fund 471	Minor Fund 472	Minor Fund 473	<b>Total Memorandum Only</b>
<b>REVENUES:</b>							
Taxes	\$ 44,682	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,682
Development Fees	-	-	-	-	-	-	-
Interest	3,231	7,016	-	-	1,016	-	11,262
General Charges for Service	29,743	-	-	-	-	-	29,743
Lighting Service	19,357	-	-	-	-	-	19,357
Sewer Service	396,498	-	-	-	-	-	396,498
Water Service	607,463	-	-	-	-	-	607,463
Misc. Revenues	222	-	-	-	-	-	222
<b>TOTAL REVENUES</b>	<b>1,101,197</b>	<b>7,016</b>	<b>-</b>	<b>-</b>	<b>1,016</b>	<b>-</b>	<b>1,109,228</b>
<b>EXPENSES:</b>							
Interest	7,082	-	-	-	-	201,993	209,074
Depreciation	117,513	-	-	-	-	-	117,513
Supplies	6,131	-	-	-	-	-	6,131
Insurance	14,905	-	-	-	-	-	14,905
Travel & Training	19,915	-	-	-	-	-	19,915
Office	9,272	-	-	-	-	-	9,272
Salaries and Benefits	514,054	-	-	-	-	-	514,054
Professional Fees	72,173	-	-	-	-	-	72,173
Utilities	106,850	-	-	-	-	-	106,850
Maintenance & Small Tools	76,719	-	-	973	-	-	77,692
Miscellaneous	22,040	-	-	-	-	-	22,040

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

**ESPARTO COMMUNITY SERVICE DISTRICT**  
**Schedule of Revenues, Expenses & Change in Net Assets**  
**For the Year-Ended**  
**June 30, 2010**

<b>TOTAL EXPENSES</b>	<u>966,655</u>	<u>-</u>	<u>-</u>	<u>973</u>	<u>-</u>	<u>201,993</u>	<u>1,169,620</u>
Excess of Revenues Over (Under) Expenditures	<u>134,542</u>	<u>7,016</u>	<u>-</u>	<u>(973)</u>	<u>1,016</u>	<u>(201,993)</u>	<u>141,600</u>
Other financial sources/uses							
Fund Transfer	<u>(243,454)</u>	<u>-</u>	<u>25,593</u>	<u>-</u>	<u>15,868</u>	<u>201,993</u>	<u>-</u>
<b>NET CHANGE IN NET ASSETS</b>	<u>(108,912)</u>	<u>7,016</u>	<u>25,593</u>	<u>(973)</u>	<u>16,884</u>	<u>-</u>	<u>(60,392)</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2,744,623</u>	<u>541,864</u>	<u>-</u>	<u>973</u>	<u>70,939</u>	<u>-</u>	<u>3,358,399</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 2,635,711</u></u>	<u><u>\$ 548,880</u></u>	<u><u>\$ 25,593</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 87,823</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,298,007</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, 2010**

	466	469	470	471	472	473	Jun-10 Memorandum Only
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>							
Cash Received from Development Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Received from Charges for Service	1,048,749	-	25,593	-	-	-	1,074,342
Deduct: Cash paid for Operating Expenses	(822,172)	-	-	-	-	-	(822,172)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>226,577</b>	<b>-</b>	<b>25,593</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>252,170</b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>							
Proceeds from Loans	-	-	-	74,438	110,238	-	184,676
Payment on Principle on Notes Payable	(48,102)	-	-	-	-	(278,993)	(327,095)
Purchase of Capital Assets	(44,067)	-	-	(29,984)	(82,607)	-	(156,658)
<b>NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(92,169)</b>	<b>-</b>	<b>-</b>	<b>44,454</b>	<b>27,631</b>	<b>(278,993)</b>	<b>(156,658)</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>							
Cash Transferred Between Funds	(278,993)	-	-	-	-	278,993	-
Property Tax Receipts	44,682	-	-	-	-	-	44,682
<b>NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	<b>(234,311)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>278,993</b>	<b>44,682</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>							
Interest Receipts	3,231	7,016	-	-	1,016	-	11,263
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>3,231</b>	<b>7,016</b>	<b>-</b>	<b>-</b>	<b>1,016</b>	<b>-</b>	<b>11,263</b>
<b><u>NET INCREASE (DECREASE) IN CASH</u></b>	<b>(96,672)</b>	<b>7,016</b>	<b>25,593</b>	<b>44,454</b>	<b>28,647</b>	<b>-</b>	<b>9,038</b>
<b><u>CASH, BEGINNING OF YEAR</u></b>	<b>402,695</b>	<b>596,443</b>	<b>-</b>	<b>(44,454)</b>	<b>81,573</b>	<b>-</b>	<b>1,036,257</b>
<b><u>CASH, END OF YEAR</u></b>	<b>\$ 306,023</b>	<b>\$ 603,459</b>	<b>\$ 25,593</b>	<b>\$ -</b>	<b>\$ 110,220</b>	<b>\$ -</b>	<b>\$ 1,045,295</b>

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

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2010

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Esparto Community Service District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**A. Description of the Reporting Entity**

The District was established on August 18, 1969 to replace the Esparto Sanitary Service District and the Yolo Water Works District No. 1. The District operates under section 61000 et. seq. of the California State Government Code. The District is located in the western section of Yolo County, and provides water, sewer, waste disposal, and lighting service to the community of Esparto and surrounding areas.

The District is a governed entity administered by a Board of Directors (Board) that acts as the authoritative and legislative body of the entity. The Board is comprised of five board members who are elected by voters living within the District's boundaries. Elections are held within the Board to appoint the President. The President's responsibilities are to preside at all meetings of the Board; be the chief officer of the District; perform all duties commonly incident to the position of presiding officer of a board, commission, or business organization; and exercise supervision over the business of the District, its officers, and its employees.

The accompanying general-purpose financial statements comply with the provisions of GASB Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

**B. Basis of Accounting/Measurement Focus**

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**C. Government-Wide Financial Statements**

The District Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2010

Governmental and Business-Type Activities for the District accompanied by a total column. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

**D. Governmental Fund Financial Statements**

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-Wide financial statements. The District has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District, are property tax, intergovernmental revenues, other taxes and charges for service. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

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. Program revenues include (1) charges paid by the recipients of services offered by the program and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxes are presented instead as general revenues.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2010

Enterprise Funds – The enterprises funds are used to account for all the financial resources of the District. The enterprise fund balance is available to the District for any purpose, provided it is expended or transferred according to the general laws of California and the bylaws of the District. The District maintains separate funds for General (466), Development Fees (469), Loan requirements (470), USDA water loan (471), USDA sewer loan (472) and USDA repayment (473).

*Exchange and Non-Exchange Transactions of Revenues* – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the District receives value without directly giving value in return, include taxes and donations. Revenues are recognized when susceptible to accrual, when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. The assessor of the County of Mendocino 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/Expenditures*- On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

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, 2010, the primary government had the following investments:

	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Agency</u>
Cash in County Treasury	909,008	Unrated	NA
Cash in Local Bank	135,537	FDIC ins.	NA
Cash on Hand	<u>750</u>	Unrated	NA
Total Cash	\$ 1,045,295		

*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



**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2010

*Custodial credit risk.* -The District's investment in the State and County Treasurer's investment pools represents a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk. Cash in local bank is covered by federal depository insurance.

*Concentration of credit risk.* - The District does not have a policy for concentration of credit risk.

**F. Accounts Receivable**

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

**G. Accounts Payable**

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

**H. Fixed Assets**

Capital assets, which include property, plant, and equipment, infrastructure assets and intangible are reported in the applicable governmental -type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year. Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Donated or contributed capital assets are recorded at their estimated fair value on the date received.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

**I. Long-Term Debt**

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or whether they are reported in the government-wide or fund financial statements.

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.

Long-term liabilities for governmental funds are not reported as a liability in the fund financial statements. The liability proceeds are reported as other financing sources and payments of principal and interest as expenditures.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2010

The following is a summary of the long-term liability transactions for the year ended June 30, 2010:

	Balance at June 30, 2009	Additions	(Deletions)	Balance at June 30, 2010
Notes Payable - CDBG	\$ 61,947	\$ -	\$ (5,703)	\$ 55,794
Notes Payable - Bank of West	13,349	-	(7,790)	5,559
USDA Water Loan	3,525,000	-	(60,000)	3,465,000
USDA Sewer Loan	1,454,762	110,238	(17,000)	1,548,000
Capital Leases	86,585	-	(27,026)	58,880
<b>Total Long-Term Liabilities</b>	<b>\$ 2,071,196</b>	<b>\$ 110,238</b>	<b>\$ (117,519)</b>	<b>\$ 5,133,233</b>

J. CDBG Loan Payable

In May of 2003 the District Obtained a Community Development Block Grant(CDBG) loan from the County of Yolo in the amount of \$ 90,748 to help finance the purchase of equipment and the installation of a new sewage lift station. The term of the loan is fifteen years, with payments being deferred for one year from the date of closing. Interest will be paid at 3% per annum.

As of June 30, 2010, annual debt service requirements to maturity are as follows:

	<u>2010</u>
Current Portion Due	\$ 6,338
Long-Term Portion Due	<u>49,456</u>
<b>Total Due</b>	<b><u>\$55,794</u></b>

L. Bank of West Loan Payable

In February of 2007 the District obtained a loan from Bank of the West for the purchase of a 2005 Ford Truck. The term of the loan is five years. Interest will be paid at 8.24% per annum.

As of June 30, 2010, annual debt service requirements to maturity are as follows:

	<u>2010</u>
Current Portion Due	\$ 5,559
Long-Term Portion Due	<u>-</u>
<b>Total Due</b>	<b><u>\$ 5,559</u></b>

M. Capital Lease

In April of 2002 the District leased a 500,000 gallon tank and related equipment. The first payment was due on October 13, 2002. The asset and related obligation have been recorded using the

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2010

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

As of June 30, 2010, annual future minimum lease payments are as follows:

	<u>2010</u>
Current Portion Due	\$28,497
Long-Term Portion Due	<u>30,383</u>
Total Due	<u>\$58,880</u>

**N. 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, 2010 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 twenty years. Interest will be paid at 4.125% per annum.

As of June 30, 2010, annual future minimum lease payments are as follows:

	<u>2010</u>
Current Portion Due	\$ 61,000
Long-Term Portion Due	<u>3,404,000</u>
Total Due	<u>\$3,465,000</u>

**O. 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, 2010 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 twenty years. Interest will be paid at 4.125% per annum.

As of June 30, 2010, annual future minimum payments are as follows:

	<u>2010</u>
Current Portion Due	\$ 18,000
Long-Term Portion Due	<u>1,530,000</u>
Total Due	<u>\$ 1,548,000</u>

**P. 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.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2010

**Q. Property Tax Revenue**

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

**P. Net Assets**

The District's net assets represent the difference between its assets and liabilities in the statement of net assets. Net assets are reported as restricted when there are legal limitations imposed on their use by their source. Portions of the unreserved net assets or fund balance may be designated to indicate tentative plans for financial resources utilization in a future period, such as for general contingencies, purchase of capital assets, or debt service. Such plans or intent are subject to change and may never be legally authorized or result in expenditures.

**R. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2010, 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 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.

**NOTE 3: USE OF RESTRICTED/UNRESTRICTED NET ASSETS**

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

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Notes to Financial Statements**

June 30, 2010

**NOTE 4: COMPARATIVE DATA AND RECLASSIFICATIONS**

Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

**NOTE 5: USDA LOAN RESERVE**

As of June 30, 2010, the District had not funded a reserve as required in the USDA loan documents. As of the audit date the District passed a resolution reserving \$ 25,593 and requiring that \$ 25,593 be placed in reserve annually through FY 2020-2021.

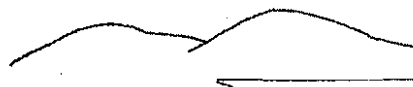
**NOTE 6: CONTIGENCIES**

As of June 30, 2010, the District did not have any pending litigation or potential nondisclosed liabilities that management believes would have a material effect on the financial statements.

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Supplemental Information**

**June 30, 2010**



June 8, 2011

To the Board of Directors  
Esparto Community Service District  
PO Box 349  
Esparto, CA 95627

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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, 2010, and have issued our report thereon dated June 8, 2011. 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.

**Compliance**

As part of obtaining reasonable assurance about whether Esparto Community Service'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 10-10.

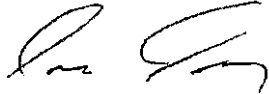
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Esparto Community Service'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 assurance 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 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 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

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**  
*(continued)*

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.

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  
June 8, 2011



**ESPARTO COMMUNITY SERVICE DISTRICT**

**Budget vs. Actual**

**Schedule of Revenues, Expenditures & Change in Fund Balances - Fund 466**

**For the Year-Ended**

**June 30, 2010**

	Fund 466 <u>Budget</u>	Fund 466 <u>Actual</u>	Variance Favorable (Unfavorable)
<b><u>REVENUES:</u></b>			
Taxes	\$ 48,740	\$ 44,682	\$ 4,058
Interest	5,000	3,231	1,769
General Charges for Service	-	29,743	(29,743)
Lighting Service	18,542	19,357	(815)
Sewer Service	419,293	396,498	22,795
Water Service	877,171	607,463	269,708
Misc. Revenues	-	222	(222)
<b>TOTAL REVENUES</b>	<b><u>1,368,746</u></b>	<b><u>1,101,197</u></b>	<b><u>267,549</u></b>
<b><u>EXPENDITURES:</u></b>			
Interest	7,035	7,082	(47)
Capital Expenditure	349,250	44,067	305,183
Debt Service	34,141	41,020	(6,879)
Supplies	7,900	6,131	1,769
Insurance	17,686	14,905	2,781
Travel & Training	31,000	19,915	11,085
Office	14,500	9,272	5,228
Salaries and Benefits	503,234	515,495	(12,261)
Professional Fees	121,000	72,173	48,827
Utilities	149,332	106,850	42,482
Maintenance & Small Tools	77,340	76,713	627
Miscellaneous	37,750	22,040	15,710
<b>TOTAL EXPENDITURES:</b>	<b><u>1,350,168</u></b>	<b><u>935,664</u></b>	<b><u>414,504</u></b>
Excess of Revenues Over (Under) Expenditures	<u>18,578</u>	<u>165,533</u>	<u>(146,955)</u>
Other financial sources/uses Fund Transfer	<u>(304,586)</u>	<u>(304,586)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<b><u>\$ (286,008)</u></b>	<b><u>(139,053)</u></b>	<b><u>\$ (146,955)</u></b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>		<u>404,157</u>	
<b>FUND BALANCE, END OF YEAR</b>		<u>\$ 265,104</u>	

**ESPARTO COMMUNITY SERVICE DISTRICT**

**Schedule of Findings and Questioned Costs  
June 30, 2010**

**PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS:**

None.

**CURRENT YEARS AUDIT FINDINGS AND RECOMMENDATIONS:**

**Reportable Conditions – Material Weaknesses**

None.

**Reportable Conditions – Significant Deficiency**

None.

**Non-Compliance with Laws and Regulations**

**Finding 10-01:**

We noted that the District was not in compliance with a USDA loan requirement that a reserve be set-up for loan payment and capital maintenance.

**Recommendation:**

We recommend that the District set-up the reserve funding to be in compliance with the USDA loan. We also recommend that the District periodically review loan documents to make sure that they remain in compliance with all requirements.

**Management's Response to the Findings:**

Management is aware of the requirement and has adopted resolutions to correct the deficiency. Management will make efforts to review all loan documents to make sure it maintains compliance.