ESPARTO COMMUNITY
SERVICE DISTRICT

AUDIT REPORT

FOR THE YEARS ENDED
JUNE 30, 2003, 2002 AND 2001

ESPARTO COMMUNITY SERVICE DISTRICT
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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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Esparto Community Services District (District) as of June 30, 2003, 2002, and 2001, and for the years 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, 2003, 2002, and 2001 and the changes in its financial position for the years 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

In accordance with *Government Auditing Standards*, we have also issued a report dated January 19, 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.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig, Basler & Ray, CPAs, Inc.

January 19, 2005
Roseville, California

ESPARTO COMMUNITY SERVICES DISTRICT

Balance Sheets
June 30, 2003, 2002, and 2001

	2003	2002	2001
ASSETS			
Current Assets:			
Cash and investments	$ 123,440	$ 194,654	$ 310,588
Imprest cash	525	525	525
Accounts receivable	5,494	2,075	--
Taxes receivable	732	210	54
Deposits with others	1,562	1,562	1,562
Total Current Assets	131,753	199,026	312,729
Noncurrent Assets:			
Restricted cash	704,583	635,407	335,368
Capital assets, net of accumulated depreciation	2,321,358	2,062,462	1,195,269
Total Assets	$ 3,157,694	$ 2,896,895	$ 1,843,366
LIABILITIES			
Current Liabilities:			
Accounts payable	$ 23,867	$ 29,343	$ 25,681
Accrued payroll	5,774	6,769	3,684
Accrued expenses	--	--	316
Deferred revenue	348,334	432,552	182,996
Current portion of compensated absences	3,600	1,962	13,031
Current portion of capital lease obligation	19,904	--	--
Current portion of loans payable	661	--	--
Total Current Liabilities	402,140	470,626	225,708
Noncurrent Liabilities:			
Noncurrent portion of capital lease obligation	205,019	--	--
Noncurrent portion of loans payable	90,087	--	--
Total Noncurrent Liabilities	295,106	--	--
Total Liabilities	697,246	470,626	225,708
FUND EQUITY			
Contributed capital	1,504,705	1,504,705	636,466
Retained earnings:	955,743	921,564	981,192
Total Fund Equity	2,460,448	2,426,269	1,617,658
Total Liabilities and Fund Equity	$ 3,157,694	$ 2,896,895	$ 1,843,366

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

ESPARTO COMMUNITY SERVICES DISTRICT

Statements of Revenues, Expenses and Changes in Retained Earnings
For the Fiscal Years Ended June 30, 2003, 2002, and 2001

	2003	2002	2001
Operating Revenues:			
Charges for services	$ 254,695	$ 228,574	$ 228,589
Other charges	287	5,640	4,126
Total Operating Revenues	254,982	234,214	232,715
Operating Expenses:			
Salaries and benefits	151,905	143,194	74,956
Services and supplies	298,288	242,245	109,245
Depreciation	20,674	20,673	19,302
Total Operating Expenses	470,867	406,112	203,503
Operating income (loss)	(215,885)	(171,898)	29,212
Nonoperating revenue:			
Property tax revenue	28,744	26,197	24,200
Other government aid	85,876	1,384	1,742
Interest income	34,534	36,242	35,736
Interest expense	(9,170)	--	--
Development fees	110,000	--	--
Other	80	48,447	10,417
Total Nonoperating Revenue	250,064	112,270	72,095
Net Income (loss)	34,179	(59,628)	101,307
Retained Earnings, Beginning of Year	921,564	981,192	886,462
Prior period adjustment	--	--	(6,577)
Retained Earnings, Restated - Beginning of Year	921,564	981,192	879,885
Retained Earnings, End of Year	$ 955,743	$ 921,564	$ 981,192

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

ESPARTO COMMUNITY SERVICES DISTRICT

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2003, 2002, and 2001

	2003	2002	2001
Cash Flows from Operating Activities:			
Receipts from customers	$ 251,563	$ 232,139	$ 236,217
Payments to suppliers	(303,764)	(238,899)	(92,414)
Payments to employees	(151,262)	(151,178)	(70,869)
Net Cash Provided (Used) by Operating Activities	(203,463)	(157,938)	72,934
Cash Flows from Capital and Related Financing Activities:			
Fees received from developers	25,782	249,556	142,737
Proceeds from loans	88,077	--	--
Principal payment on capital leases	(25,077)	--	--
Interest payments on loans and capital leases	(6,499)	--	--
Purchase of property, plant and equipment	(29,570)	(19,627)	(36,777)
Net Cash Provided (Used) by Capital and Related Financing Activities	52,713	229,929	105,960
Cash Flows from Noncapital Financing Activities:			
Property taxes received	28,222	26,041	24,259
Payments received from other governments	85,876	1,384	1,742
Other	80	48,447	10,417
Net Cash Provided (Used) by Noncapital Financing Activities	114,178	75,872	36,418
Cash Flows from Investing Activities:			
Interest received	34,534	36,242	35,736
Net Cash Provided by Investing Activities	34,534	36,242	35,736
Net increase (decrease) in cash and cash equivalents	(2,038)	184,105	251,048
Cash and Cash Equivalents - Beginning of Year	830,586	646,481	395,433
Cash and Cash Equivalents - End of Year	$ 828,548	$ 830,586	$ 646,481

continued

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

ESPARTO COMMUNITY SERVICES DISTRICT

Statements of Cash Flows (continued)
For the Fiscal Years Ended June 30, 2003, 2002, and 2001

	2003	2002	2001
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Net operating income (loss)	(215,885)	(171,898)	29,212
Adjustments to reconcile net operating loss to net cash used in operating activities:			
Depreciation	20,674	20,673	19,302
Changes in operating assets and liabilities:			
Accounts receivable	(3,419)	(2,075)	3,502
Accounts payable	(5,476)	3,662	16,515
Accrued payroll	(995)	3,085	1,309
Accrued expenses	--	(316)	316
Liability for compensated absences	1,638	(11,069)	2,778
Net Cash Provided (Used) by Operating Activities	$ (203,463)	$ (157,938)	$ 72,934
Non Cash Capital and Related Financing Activities			
Inception of capital leases	$ 250,000	$ --	$ --

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

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.

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. **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.

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.

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

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 computing 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. **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.

K. **Future Implementation of GASB Statement No. 34**

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (Statement)*. Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

- A Management Discussion and Analysis (MD & A) section providing and analysis of the District's overall financial position and results of operations.

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

K. **Future Implementation of GASB Statement No. 34** (continued)

- Financial statements prepared using full accrual accounting for all of the District's activities, including reporting infrastructure assets (roads, bridges, etc.).

- A change in the fund financial statements to focus on the major funds.

The general provisions of GASBS No. 34 must be implemented by the District no later than the fiscal year ending June 30, 2004.

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, 2003, 2002 and 2001, the outside checking account had a balance of $22,532, $14,275 and $20,543, respectively.

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, 2003, 2002 and 2001. 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.

Note 3: Restricted Cash

The balances in restricted cash are comprised of the following at June 30, 2003, 2002 and 2001:

	2003	2002	2001
Developer fees	$ 386,701	$ 454,357	$ 190,459
Equipment purchase	144,822	180,702	144,579
Land purchase	360	348	330
CDBG loan/grant	172,700	--	--
	$ 704,583	$ 635,407	$ 335,368

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 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, 2001 is summarized below:

	July 1, 2000	Additions	Adjustments	June 30, 2001
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	916,664	282,250	(36,044)	1,162,870
Equipment	101,175	--	(15,734)	85,441
Total capital assets, being depreciated	1,017,839	282,250	(51,778)	1,248,311
Less accumulated depreciation for:				
Structures and improvements	(305,054)	(17,026)	29,268	(292,812)
Equipment	(58,162)	(2,276)	12,733	(47,705)
Total accumulated depreciation	(363,216)	(19,302)	42,001	(340,517)
Total capital assets, being depreciated, net	654,623	262,948	(9,777)	907,794
Net Book Value	$ 942,098	$ 262,948	$ (9,777)	$ 1,195,269

Note 4: **Property, Plant and Equipment** (continued)

The District's property, plant and equipment at June 30, 2002 is summarized below:

	July 1, 2001	Additions	Adjustments	June 30, 2002
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	1,162,870	868,239	--	2,031,109
Equipment	85,441	19,627	--	105,068
Total capital assets, being depreciated	1,248,311	887,866	--	2,136,177
Less accumulated depreciation for:				
Structures and improvements	(292,812)	(18,398)	--	(311,210)
Equipment	(47,705)	(2,275)	--	(49,980)
Total accumulated depreciation	(340,517)	(20,673)	--	(361,190)
Total capital assets, being depreciated, net	907,794	867,193	--	1,774,987
Net Book Value	$ 1,195,269	$ 867,193	$ --	$ 2,062,462

The District's property, plant and equipment at June 30, 2003 is summarized below:

	July 1, 2002	Additions	Adjustments	June 30, 2003
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	2,031,109	250,000	--	2,281,109
Equipment	105,068	29,570	--	134,638
Total capital assets, being depreciated	2,136,177	279,570	--	2,415,747
Less accumulated depreciation for:				
Structures and improvements	(311,210)	(18,399)	--	(329,609)
Equipment	(49,980)	(2,275)	--	(52,255)
Total accumulated depreciation	(361,190)	(20,674)	--	(381,864)
Total capital assets, being depreciated, net	1,774,987	258,896	--	2,033,883
Net Book Value	$ 2,062,462	$ 258,896	$ --	$ 2,321,358

Note 5: **Long-Term Debt**

The following is a summary of long-term liabilities transactions for the year ended June 30, 2001:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001	Amounts Due Within One Year
Compensated absences	$ 10,253	$ 2,778	$ --	$ 13,031	$ 13,031
Total Long-Term Liabilities	$ 10,253	$ 2,778	$ --	$ 13,031	$ 13,031

The following is a summary of long-term liabilities transactions for the year ended June 30, 2002:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002	Amounts Due Within One Year
Compensated absences	13,031	$ --	$ 11,069	$ 1,962	$ 1,962
Total Long-Term Liabilities	$ 13,031	$ --	$ 11,069	$ 1,962	$ 1,962

The following is a summary of long-term liabilities transactions for the year ended June 30, 2003:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003	Amounts Due Within One Year
Note payable	$ --	$ 90,748	$ --	$ 90,748	$ 661
Capital leases	--	250,000	25,077	224,923	19,904
Compensated absences	1,962	1,638	--	3,600	3,600
Total Long-Term Liabilities	$ 1,962	$ 342,386	$ 25,077	$ 319,271	$ 24,165

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.

Note 5: **Long-Term Debt** (continued)

As of June 30, 2003, annual debt service requirements to maturity are as follows:

Year Ending June 30:	Loan Payable Principal	Loan Payable Interest
2004	$ 661	$ --
2005	5,296	2,630
2006	5,457	2,469
2007	5,623	2,303
2008	5,794	2,132
2009-2013	31,725	7,908
2014-2018	36,192	2,779
Total	$ 90,748	$ 20,221

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.

Future minimum lease payments under capital leases together with the present value of minimum lease payments as of June 30, 2003 are as follows:

Year Ending June 30	
2004	$ 31,576
2005	31,576
2006	31,576
2007	31,576
2008	31,576
2009-2013	126,301
Total Future Minimum Lease Payments	284,181
Less: Interest	(59,258)
Present Value of Minimum Lease Payments	$ 224,923

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.

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.

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

C. **Annual Pension Cost**

For fiscal years 2003, 2002 and 2001, the District's annual pension cost was $6,153, $6,629 and $8,253, respectively. The required contributions for fiscal year 2003, 2002 and 2001 were determined as part of the June 30, 1999 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 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, 1999 was 6 years.

Six 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
1998	$ 29,948	100%	$ --
1999	15,259	100%	--
2000	8,013	100%	--
2001	8,253	100%	--
2002	6,629	100%	--
2003	6,153	100%	--

Required Supplementary Information

The most recent actuarial valuation date is June 30, 2003. The required supplementary information for fiscal year 2003, along with the preceding two years, is as follows:

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/01	$ 426,296	$ 509,134	$ (82,838)	119.4%	$ 50,637	(163.6)%
6/30/02	451,900	510,259	(58,359)	112.9%	104,755	(55.7)%
6/30/03	441,821	464,702	(22,881)	105.2%	52,270	(43.8)%

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: **Contributed Capital**

Capital assets received by the District from developers are recorded as contributed capital.

Following are the changes in contributed capital during the year ended June 30, 2001:

	Amount
Balance, Beginning of Year	$ 390,993
Capital assets contributed	245,473
Balance, End of Year	$ 636,466

Following are the changes in contributed capital during the year ended June 30, 2002:

	Amount
Balance, Beginning of Year	$ 636,466
Capital assets contributed	868,239
Balance, End of Year	$1,504,705

There was no change in contributed capital during the year ended June 30, 2003.

Note 10: **Prior Period Adjustment**

A prior period adjustment of ($3,200) was made to adjust for a capital lease that should have been recorded as an operating lease in a prior period. In addition, a prior period adjustment of $9,777 was recorded to remove capital assets from the books that should have been removed in a prior period.

OTHER REPORT

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 years ended June 30, 2003, 2002, and 2001, and have issued our report thereon dated January 19, 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 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 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
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 19, 2005
Roseville, California