

**DIABLO COMMUNITY SERVICES DISTRICT  
DIABLO, CALIFORNIA**

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**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2018**

**WITH**

**INDEPENDENT AUDITORS' REPORT**

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**DIABLO COMMUNITY SERVICES DISTRICT  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

VALUE THE *difference*

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Diablo Community Services District  
Diablo, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the general fund of the Diablo Community Services District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

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 general fund of the District as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

*Vavrinck, Trine, Day & Co. LLP*

Pleasanton, California  
October 22, 2018

# DIABLO COMMUNITY SERVICES DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

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The following discussion and analysis of the Diablo Community Service District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the District financial statements.

### HIGHLIGHTS

#### Financial Highlights

The District has established its finances so that its costs are fairly equal from year to year.

- Roads: The District follows a five year plan in which each road in the unincorporated community of Diablo (Diablo) is subject to a thorough review every five years. Inherent in this plan is that the road maintenance costs do not typically vary much period to period.
- Security: The costs to the District for the Deputy Sheriff assigned to Diablo are the same as those costs to Contra Costa County with a small up charge for overhead, supervision, training, and assignments during vacation and sickness. As with the roads maintenance costs, the costs of security does not typically vary much from year to year.

### USING THIS ANNUAL REPORT

This annual report consists of two parts: Management's Discussion and Analysis and Financial Statements. The Financial Statements also include notes that explain in more detail some of the information contained in the statements.

#### Required Financial Statements

The Basic Financial Statements are comprised of District-wide financial statements and Fund financial statements. These two sets of financial statements provide the reader two different viewpoints of the District's financial activities and financial position.

District-wide financial statements report financial information about the District using the accrual basis of accounting method similar to those used by private sector companies. The Statement of Net Position includes all District assets and liabilities, and provides information about the nature and amounts of investments and resources (assets) and obligations (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. The Statement of Activities provides information about the District's revenues and expenses, also on the accrual basis, with the emphasis on measuring net revenues and/or expenses for each of the District's activities. The Statement of Activities explains in detail the change in Net Position for the fiscal year.

Fund financial statements include statements for governmental activities. The Governmental Activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. Capital assets and other long-lived assets, along with long-term liabilities if any, are not presented in the governmental fund financial statements balance sheet. Unlike the government-wide financial statements, governmental fund financial statements focuses on near-term inflows and outflows of spendable resources, and on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

All of the current year's revenues and expenditures are accounted for in the Statement of Revenues, Expenditures and Changes in Fund Balances. This statement measures the success of District operations over the past year and

# DIABLO COMMUNITY SERVICES DISTRICT

## MANAGEMENT’S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

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can be used to determine whether the District has successfully recovered all its costs through its property taxes, other charges and fees, and traffic fines.

Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences between these two sets of financial statements.

### FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District finances is whether or not the District’s overall financial position has improved or deteriorated. The Statement of Net Position and Statement of Activities report information about the District activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of District’s net position – the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in District’s net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

#### Changes in Net Position

District total net position decreased \$4,497 in FY 2018. In FY 2018 the District incurred legal fees of \$205K as a result of a lawsuit filed against the District by 7 residents of Calle Arroyo road. The plaintiffs asked the court to compel the District to prevent the public from using Calle Arroyo road. On October 5, 2018 the court ruled that the District did not have the authority to prevent the public from using Calle Arroyo road. Funds ear marked for future road improvements were diverted to pay the legal fees. Security costs increased in FY 2018 by \$12K as a result of increased use of sheriff overtime to enforce traffic laws within Diablo.

The following includes figures from the statements of net position.

#### Statements of Net Position

	<u>2018</u>	<u>2017</u>
Deposits and investments	\$ 313,104	\$ 269,650
Receivables	2,200	2,200
Prepaid Expenses	11,413	216
Capital assets	<u>29,670</u>	<u>38,733</u>
Total Assets	<u>356,387</u>	<u>310,799</u>
Accounts payable and accrued liabilities	<u>90,028</u>	<u>39,943</u>
Net investment in capital assets	29,670	38,733
Unrestricted	<u>236,689</u>	<u>232,123</u>
Total Net Position	<u>\$ 266,359</u>	<u>\$ 270,856</u>

# DIABLO COMMUNITY SERVICES DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

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In part, changes in District net position can be determined by reviewing the following Statements of Activities.

### Statements of Activities

	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues		
Charge for services	\$ 246,189	\$ 253,636
General revenues	444,625	424,344
Total Revenues	<u>690,814</u>	<u>677,980</u>
Expenses:		
General government	297,277	86,219
Public safety	382,620	368,814
Public works	15,414	599,038
Total Expenses	<u>695,311</u>	<u>1,054,071</u>
Changes in Net Position	<u>\$ (4,497)</u>	<u>\$ (376,091)</u>

### **Budgetary Highlights**

Because of the consistency in the District's revenues and expenditures, the District is able to establish a budget and mostly operate within that budget. From time to time, there are items that must be addressed that do not appear in the budget such as additional road maintenance costs resulting from storms, flooding and fallen trees, and additional security costs when the board determines that temporary additional patrol is required because of a temporary spike in vandalism or burglaries or traffic violations. In 2018 the public works budget was \$33,700 and the actual expenditure was \$15,414. The budget variance is due to lower than expected emergency repair costs. The public safety budget was \$365,550 and the actual expenditure \$373,557. The general government budget was \$105,747 and the actual expenditure was \$297,277. The budget variance of \$191,530 is due primarily to legal costs incurred to defend against a lawsuit filed by 7 residents of Calle Arroyo road. A schedule showing the District's original and final budget amounts compared with the amounts actually paid and received is provided in our annual report on page 22.

### **CAPITAL ASSETS**

#### **Capital Assets**

At the end of fiscal year 2018, the District had \$29,670 (net of accumulated depreciation) in capital assets. The following table summarizes District capital assets at historical costs for fiscal year ended June 30, 2018.

	<u>2018</u>	<u>2017</u>
Vehicle	\$ 42,817	\$ 42,817
Equipment and computers	8,417	8,417
Accumulated depreciation	(21,564)	(12,501)
Total capital assets	<u>\$ 29,670</u>	<u>\$ 38,733</u>

Additional information on capital assets can be found in footnote 3 to the financial statements.

# DIABLO COMMUNITY SERVICES DISTRICT

## MANAGEMENT’S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

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### **SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017-2018 ARE NOTED BELOW:**

The primary functions of the District are to maintain the roads, bridges and culverts in Diablo and provide security patrols within its boundaries. Both of these purposes were fulfilled. The District also has recreation powers and the power to install and maintain street lighting. However, this last power has never been exercised. The reasons for not exercising this power include resident reluctance to street lighting, cost, and lack of need. The recreation power was added in the 70s to provide maintenance of a pedestrian/equestrian (Kay’s Trail) between Alameda Diablo and Mt. Diablo Scenic. The (Kay’s Trail) is maintained on an “as needed” basis.

### **ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

In considering the District’s budget for 2018-2019 year, the Board and management used the following criteria:

The District’s primary revenue sources are property taxes (general revenues) and non-tax user charges (charges for services). The property tax revenue is received from Contra Costa County (the County) based on the County’s revenue allocation formula. The District does not have any role in determining the allocation; however the amount received does not change significantly from year to year. The District budgets its revenue using the prior year’s allocation.

The non-tax user charges are fees charged to residents for security and road and bridge maintenance by the District. The fee is increased 3% annually to cover cost of living increases.

The District non-tax user charges for 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
<i>Security Fee</i>		
Diablo County Club	\$13,508	\$13,112
Developed parcel	\$ 383	\$ 372
Undeveloped parcel	\$ 73	\$ 71
<i>Road Maintenance Fee</i>		
Diablo County club	\$ 6,755	\$ 6,558
Developed parcel	\$ 191	\$ 186
Undeveloped parcel	\$ 37	\$ 36

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide our customers and creditors with a general overview of District finances, and demonstrate District accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the District at P O Box 321, Diablo, California, 94528.

# DIABLO COMMUNITY SERVICES DISTRICT

## STATEMENT OF NET POSITION

JUNE 30, 2018

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	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 313,104
Accounts receivable	2,200
Prepaid expenses	11,413
Capital assets, net of accumulated depreciation	29,670
<b>TOTAL ASSETS</b>	<u>356,387</u>
<b>LIABILITIES</b>	
Accrued liabilities	90,028
<b>TOTAL LIABILITIES</b>	<u>90,028</u>
<b>NET POSITION</b>	
Investment in capital assets	29,670
Unrestricted	236,689
<b>TOTAL NET POSITION</b>	<u>\$ 266,359</u>

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

**DIABLO COMMUNITY SERVICES DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Charges for Services</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>
				<u>Governmental Activities</u>
<b>Governmental Activities:</b>				
General government	\$ 297,277	\$ -		\$ (297,277)
Public safety	382,620	1,729		(380,891)
Public works	15,414	244,460		229,046
<b>Total Governmental Activities</b>	<u>\$ 695,311</u>	<u>\$ 246,189</u>		<u>(449,122)</u>
General revenues and subventions:				
Property taxes, levied for general purposes				444,570
Interest and investment earnings				55
<b>Total, General Revenues</b>				<u>444,625</u>
<b>Change in Net Position</b>				(4,497)
Net Position - Beginning				<u>270,856</u>
Net Position - Ending				<u>\$ 266,359</u>

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

**DIABLO COMMUNITY SERVICES DISTRICT**

**GOVERNMENTAL FUND  
BALANCE SHEET  
JUNE 30, 2018**

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	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 313,104
Receivables	2,200
Prepaid expenses	11,413
<b>Total Assets</b>	<b><u>\$ 326,717</u></b>
 <b>LIABILITIES AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accrued liabilities	<u>\$ 90,028</u>
<b>Total Liabilities</b>	<b><u>90,028</u></b>
 <b>FUND BALANCES</b>	
Unassigned	<u>236,689</u>
<b>Total Fund Balances</b>	<b><u>236,689</u></b>
 <b>Total Liabilities and Fund Balances</b>	<b><u>\$ 326,717</u></b>

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

**DIABLO COMMUNITY SERVICES DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

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**Total Fund Balance - Governmental Fund** \$ 236,689

**Amounts Reported for Governmental Activities in the Statement of Net  
Position are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore,  
are not reported as assets in governmental funds.

Cost of capital assets	\$ 51,234	
Accumulated depreciation	<u>(21,564)</u>	
Total capital assets - net		<u>29,670</u>
<b>Total Net Position - Governmental Activities</b>		<b><u><u>\$ 266,359</u></u></b>

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

# DIABLO COMMUNITY SERVICES DISTRICT

## GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2018

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	<u>General Fund</u>
REVENUES	
Property taxes	\$ 444,570
Road and security fees	244,460
Traffic fines	1,729
Interest income	55
Total Revenues	<u>690,814</u>
EXPENDITURES	
Current	
General government	297,277
Public safety	373,557
Public works	15,414
Total Expenditures	<u>686,248</u>
NET CHANGE IN FUND BALANCES	4,566
Fund Balance - Beginning	<u>232,123</u>
Fund Balance - Ending	<u>\$ 236,689</u>

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

**DIABLO COMMUNITY SERVICES DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

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**Total Net Change in Fund Balances - Governmental Fund** \$ 4,566

**Amounts Reported for Governmental Activities in the Statement of  
Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.

Depreciation expense	<u>(9,063)</u>	
Total capital assets - net		<u>(9,063)</u>
<b>Change in Net Position of Governmental Activities</b>		<b><u>\$ (4,497)</u></b>

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

# DIABLO COMMUNITY SERVICES DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **General**

The Diablo Community Service District (the District) is a special district funded predominately by property taxes and non-tax user charge fees in the State of California. The Diablo Public Utility District was formed on March 23, 1951, under Section 14010 of the Health and Safety Code. On May 15, 1969, the Diablo Public Utility District was terminated and the Diablo Community Service District was formed. The District was reorganized in September 1968, under provisions of Part 2.7, Section 13801-1399 of the Health and Safety Code. The reorganization caused no changes in the governing body and the assets and liabilities of the former District were transferred to the reorganized District.

The function of Diablo Community Service District is to provide security and road maintenance services to the unincorporated community of Diablo, which is generally located northeast of the Town of Danville.

The District also has recreation powers and the power to install and maintain street lighting. This power was added to provide maintenance of a pedestrian/equestrian (Kay's Trail) between Alameda Diablo and Mt. Diablo Scenic. The (Kay's Trail) is maintained on an "as needed" basis.

The Board of Directors is an elected governmental body and consists of five members including a president, a vice president and three members. If a member resigns before the end of his/her term the Board of Directors shall either appoint an interim director or hold an election to fill the vacancy to serve out the remaining term. If a vacancy is not filled within 60 days the Board of Supervisors may appoint a person to fill the vacancy or order the District to call an election to fill the vacancy.

#### **Reporting Entity**

Although the nucleus of financial reporting entity usually is a primary government, an organization other than a primary government, such as a stand-alone government, may serve as the nucleus for its financial reporting entity when the stand-alone government provides separately issued financial statements. A stand-alone government is a legally separate governmental organization that does not meet the definition of a component unit. Diablo Community Services District meets the criteria as a stand-alone government, and accordingly, is accounted for and reported on as though it were a primary government.

#### **Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the types of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

# DIABLO COMMUNITY SERVICES DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. The District receives no grants and does not anticipate applying for any.

The Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days at the end of the current fiscal period to pay current liabilities. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. The following revenue resources are considered to be both measurable and available at fiscal year-end: interest, taxes, and other local sources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the District receives cash.

#### **Basis of presentation - Government-Wide Financial Statements**

The statement of net position and the statement of activities report information on all of the activities of the District. The District reports governmental activities, which normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### **Basis of presentation - Fund Financial Statements**

The accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. An emphasis is placed on major funds within the governmental category. The following is the District's major and the only governmental fund:

# DIABLO COMMUNITY SERVICES DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**General Fund** The General Fund is used to account for all financial resources of the District. The General 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 regulations of the District.

#### Capital Assets and Depreciation

Capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported on the balance sheet of the fund financial statements.

The District capitalizes assets that have a cost in excess of \$2,500 and a useful life in excess of one year. Assets are valued at cost when determinable or estimated cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The District does not possess any infrastructure. The roads and bridges are privately owned and the District has the authority to maintain them. All capital assets purchased are stated at cost. Depreciation of capital assets is computed using the straight-line method. The estimated useful life of the vehicle is 5 years and equipment and computers are in 3 - 5 years.

#### Accrued Liabilities

All payables and accrued liabilities if applicable are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as liabilities of the fund.

#### Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

#### Fund Balance

Fund balance is classified into five different components. The components are nonspendable, restricted, committed, assigned and unassigned.

- **Non-spendable** - amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact. The District currently does not have any nonspendable funds.

# DIABLO COMMUNITY SERVICES DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District currently does not have any restricted funds.
- **Committed** – amounts that can be used only for specific purposes determined by a formal action of the Governing Board through a resolution. The Governing Board is the highest level of decision-making authority for the District. The constraint remains binding unless removed in the same formal manner by the Governing Board. Board's action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently. The District currently does not have any committed funds.
- **Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The responsibility for assigning amounts for specific purposes has been delegated to the accounting director by the Governing Board. The District currently does not have any assigned funds.
- **Unassigned** - all other spendable amounts.

#### Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the highest level of decision-making authority has provided otherwise in its commitment or assignment actions.

#### Budgetary

Budgets are annually adopted by the board on a basis consistent with generally accepted accounting principles. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is on the fund level.

#### Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on December 10 and April 10, respectively.

The County of Contra Costa bills and collects the taxes on behalf of the District and distributed property tax revenues to the District four times a year. District property tax revenues are recognized when levied to the extent that they result in current receivables.

**DIABLO COMMUNITY SERVICES DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**New Accounting Pronouncements**

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. The provisions of this statement are not expected to have any impact on the financial statements.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

**Summary of Deposits**

Deposits as of June 30, 2018 consist of the following:

	<u>Carrying Amount</u>
Deposits with financial institutions	<u>\$ 313,104</u>

**DIABLO COMMUNITY SERVICES DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)**

**General Authorizations**

The table below identifies the investment types that are authorized for the District by the California Government Code. Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below.

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	n/a	20%	10%
Money Market Mutual Funds	n/a	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	n/a	None	None
Local Agency Investment Fund (LAIF)	n/a	None	None
Joint Powers Authority Pools	n/a	None	None

# DIABLO COMMUNITY SERVICES DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 2 – CASH, AND CASH EQUIVALENTS (CONTINUED)

#### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy, as well as the California Government Code, requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2018, District's total bank balance was \$319,422 and was either insured by the Federal Deposit Insurance Corporation (FDIC), or collateralized, but not in the name of the District.

### NOTE 3 – CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2018 was as follows:

	Balance			Balance	
	June 30, 2017	Additions	Dispositions	June 30, 2018	
Capital assets being depreciated					
Vehicle	\$ 42,817	\$ -	\$ -	\$ 42,817	
Equipment and computers	8,417	-	-	8,417	
Total capital assets being depreciated	<u>51,234</u>	<u>-</u>	<u>-</u>	<u>51,234</u>	
Less accumulated depreciation					
Vehicle	5,709	8,563	-	14,272	
Equipment and computers	<u>6,792</u>	<u>500</u>	<u>-</u>	<u>7,292</u>	
Total accumulated depreciation	<u>12,501</u>	<u>9,063</u>	<u>-</u>	<u>21,564</u>	
Total capital assets	<u>\$ 38,733</u>	<u>\$ 9,063</u>	<u>\$ -</u>	<u>\$ 29,670</u>	

**DIABLO COMMUNITY SERVICES DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**NOTE 4 - ACCRUED LIABILITIES**

Accrued liabilities as of June 30, 2018 consist of the following:

Sheriff services and other accrued expenses	\$ 90,028
Total accrued liabilities	<u>\$ 90,028</u>

**NOTE 5 – FUND BALANCES**

Fund balances are composed of the following elements:

Unassigned	<u>\$ 236,689</u>
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**NOTE 6 – COMMITMENTS AND CONTINGENT LIABILITIES**

*Litigation*

The District may from time to time involve in litigation arising from the normal course of business. On December 21, 2017 a lawsuit was filed against the District and other defendants by 7 residents of Calle Arroyo road. The plaintiffs asserted that Calle Arroyo is a strictly private street, not subject to a public right-of-way, and that the District is obligated to prevent the public from using Calle Arroyo road. On October 5, 2018 the Contra Costa Superior Court ruled that the District does not have the authority to prevent the general public from using Calle Arroyo road.

**NOTE 7 – RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destructions of assets; errors and omissions; injuries to third parties and natural disasters. The District pays annual premiums to purchase commercial insurance to protect against these risks. There were no significant changes in coverages or claims that exceeded the coverages over the past three years.

**NOTE 8 –SUBSEQUENT EVENT**

The District held a special all mailed ballot election on March 6, 2018. The ballot asked voters to approve a proposed special tax to replace the current security and road maintenance fees and to provide for road, bridge, culvert and trail maintenance and improvements, and security/police protection for the Diablo community. The annual special tax amount is \$662.26 per improved parcels, \$128.06 per unimproved parcels and \$23,444.68 for the Diablo Country Club parcels, including an annual inflation adjustment. The ballot measure was approved by the voters and is effective FY 2019.

**REQUIRED SUPPLEMENTARY INFORMATION**

**DIABLO COMMUNITY SERVICES DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances - Positive (Negative)</b>	
	<b>(GAAP Basis)</b>				<b>Final</b>
	<b>Original</b>	<b>Final</b>			
<b>REVENUES</b>					
Property taxes and non-tax user charges	\$ 672,379	\$ 672,379	\$ 689,030	\$ 16,651	
Traffic fines	3,500	3,500	1,729	(1,771)	
Interest income	70	70	55	(15)	
<b>Total Revenues</b>	<b>675,949</b>	<b>675,949</b>	<b>690,814</b>	<b>14,865</b>	
<b>EXPENDITURES</b>					
General government	105,747	105,747	297,277	(191,530)	
Public safety	365,550	365,550	373,557	(8,007)	
Public works	33,700	33,700	15,414	18,286	
<b>Total Expenditures</b>	<b>504,997</b>	<b>504,997</b>	<b>686,248</b>	<b>(181,251)</b>	
<b>NET CHANGE IN FUND BALANCES</b>	<b>170,952</b>	<b>170,952</b>	<b>4,566</b>	<b>(166,386)</b>	
<b>Fund Balance - Beginning</b>	<b>232,123</b>	<b>232,123</b>	<b>232,123</b>	<b>-</b>	
<b>Fund Balance - Ending</b>	<b>\$ 403,075</b>	<b>\$ 403,075</b>	<b>\$ 236,689</b>	<b>\$ (166,386)</b>	



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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**INDEPENDENT AUDITORS' 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**

Board of Directors  
Diablo Community Services District  
Diablo, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and the general fund of Diablo Community Services District (District) as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 22, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vavrinek, Trine, Day & Co. LLP*

Pleasanton, California  
October 22, 2018