



**TOWN OF DISCOVERY BAY
COMMUNITY SERVICES DISTRICT**

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2011

CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Governmental Funds	
Balance Sheet	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balance	14
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances to Statement of Activities – Governmental Funds	15
Proprietary Fund	
Statement of Net Assets	16
Statement of Revenues, Expenses, and Change in Net Assets	17
Statement of Cash Flows	18
Notes to Basic Financial Statements	19

Independent Auditors' Report

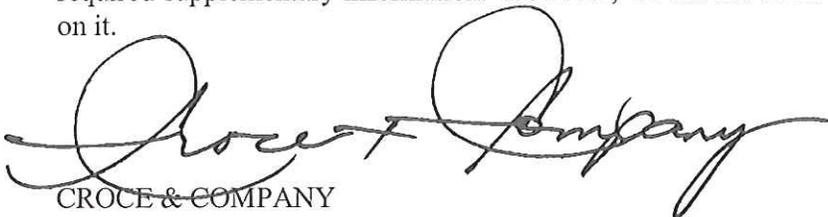
To the Board of Directors
Town of Discovery Bay Community
Services District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **Town of Discovery Bay Community Services District** (District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the **Town of Discovery Bay Community Services District** as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 10 is 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.



CROCE & COMPANY
Accountancy Corporation
Stockton, California
May 10, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis

June 30, 2011

This narrative overview and analysis of the Town of Discovery Bay Community Services District's (District) financial activities for the fiscal year ended June 30, 2011 has been provided by the management of the District. The management's discussion and analysis is intended to serve as an introduction to the District's financial statements which follow this section and is recommended to be reviewed in conjunction with them.

Financial Highlights

- The District's net assets decreased by \$749,642 over the prior year, including a \$31,750 decrease in net assets of governmental activities, and a \$717,892 decrease in net assets of business-type activities. The District's net assets are now \$42,118,180.
- Total assets of the District were \$42,960,535 with capital assets at \$34,477,648 net of accumulated depreciation. Current and other assets were \$8,482,887.
- Total liabilities were \$842,355 consisting of long-term liabilities of \$31,393 and other current liabilities of \$810,962.
- Assets of the District exceeded liabilities at the close of the most recent fiscal year by \$42,118,180 (net assets). Of this amount, \$7,640,532 (unrestricted net assets) may be used to meet the District's ongoing obligations, and \$34,477,648 is invested in capital assets, net of related debt.
- On the current financial resources basis, the District's governmental fund expenditures (including \$519,323 in capital outlay expenditures) exceeded revenues by \$473,594. The proprietary fund expenses exceeded revenues by \$717,892.
- At year-end, there was \$2,189,775 in cash and investments to fund future governmental activities, and \$5,829,745 in cash and investments to fund future business-type activities.

Overview of the Financial Statements

The District's financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to financial statements including required supplementary information.

Government-wide and fund financial statements present the results of operations for different functions of the District as follows:

1. **Government-wide financial statements** provide both long-term and short-term information about the District's overall financial position in a manner similar to private-sector business.

The **Statement of Net Assets** displays all of the District's assets and liabilities, with the difference between the two reported as net assets. The **Statement of Activities** provides all current year

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis

June 30, 2011

Overview of the Financial Statements (Continued)

revenues and expenses on an accrual basis of accounting regardless of when cash is received or paid. These two government-wide statements report the District's net assets and how they have changed during the fiscal year. 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 weakening.

The government-wide financial statements separately present the District's functions as follows:

- **Governmental activities** include services financed mainly through property taxes. The District's lighting and landscaping and community center services comprise its governmental activities.
 - **Business-type activities** include services financed, in whole or in part, by fees paid by those who directly benefit from the service. The District's business-type activities include providing water and wastewater services to the residents of the District.
2. **Fund financial statements** focus on the individual functions of the District, and report the District's operations in more detail than the government-wide statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used by state and local governments to control their resources that are legally restricted or otherwise earmarked for special purposes. The District reports its fund financial statements in the following two categories:
- **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on 1) short-term inflows and outflows of expendable resources, and 2) the resources remaining at the end of the fiscal year that are available for future use. Because the focus of governmental funds is narrower than the government-wide financial statements, a reconciliation that explains the relationship (or differences) between them is presented following each of the governmental fund statements.
 - **Proprietary funds** are used to report the same functions presented as business-type activities in the government-wide financial statements in more detail.

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

Financial Analysis of the Government-wide Financial Statements

A review of net assets over time may serve as a useful indicator of the District's financial position. Net assets represent the difference between the District's assets and liabilities. As of June 30, 2011, the District's net assets were \$42,118,180, a decrease of \$749,642 from prior year. The following table outlines the District's net assets by function for the current and prior fiscal years.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis

June 30, 2011

Financial Analysis of the Government-wide Financial Statements (Continued)

Town of Discovery Bay Community Services District Net Assets

As of June 30, 2011 and 2010

Assets	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Variance</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>\$</u>
Current and other assets	\$ 2,257,794	\$ 2,636,625	\$ 6,225,093	\$ 6,293,612	\$ 8,482,887	\$ 8,930,237	\$ (447,350)
Capital assets, net	<u>1,569,054</u>	<u>1,119,103</u>	<u>32,908,594</u>	<u>33,381,288</u>	<u>34,477,648</u>	<u>34,500,391</u>	<u>(22,743)</u>
Total assets	<u>3,826,848</u>	<u>3,755,728</u>	<u>39,133,687</u>	<u>39,674,900</u>	<u>42,960,535</u>	<u>43,430,628</u>	<u>(470,093)</u>
Liabilities							
Current liabilities	179,142	83,019	631,820	479,787	810,962	562,806	248,156
Non-current liabilities	<u>6,747</u>	<u>-</u>	<u>24,646</u>	<u>-</u>	<u>31,393</u>	<u>-</u>	<u>31,393</u>
Total liabilities	<u>185,889</u>	<u>83,019</u>	<u>656,466</u>	<u>479,787</u>	<u>842,355</u>	<u>562,806</u>	<u>279,549</u>
Net Assets							
Invested in capital assets	1,569,054	1,119,103	32,908,594	33,381,288	34,477,648	34,500,391	(22,743)
Unrestricted	<u>2,071,905</u>	<u>2,553,606</u>	<u>5,568,627</u>	<u>5,813,825</u>	<u>7,640,532</u>	<u>8,367,431</u>	<u>(726,899)</u>
Total net assets	<u>\$ 3,640,959</u>	<u>\$ 3,672,709</u>	<u>\$ 38,477,221</u>	<u>\$ 39,195,113</u>	<u>\$ 42,118,180</u>	<u>\$ 42,867,822</u>	<u>\$ (749,642)</u>

By far the largest portion of the District's net assets (82%) reflects its net capital assets (e.g., land, buildings and improvements, equipment, etc.). The District uses its capital assets to provide the services it is responsible for and those assets don't represent future expendable resources. The second largest portion of the District's net assets, approximately 18%, reflects its unrestricted net assets, which may be used to meet the government's ongoing obligations.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis

June 30, 2011

Financial Analysis of the Government-wide Financial Statements (Continued)

The following table displays the change in the District's net assets for the year ended June 30, 2011.

Town of Discovery Bay Community Services District Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues						
Program revenues						
Charges for services	\$ -	\$ -	\$ 4,699,322	\$ 4,732,243	\$ 4,699,322	\$ 4,732,243
Capital grants and contributions	3,678	2,552	-	-	3,678	2,552
General revenues						
Property taxes	467,101	450,302	-	-	467,101	450,302
Assessments	83,404	82,418	-	-	83,404	82,418
Investment earnings	490	1,751	5,533	10,778	6,023	12,529
Capacity fees	-	-	-	6,172	-	6,172
Miscellaneous	<u>13,382</u>	<u>-</u>	<u>9,207</u>	<u>32,075</u>	<u>22,589</u>	<u>32,075</u>
Total revenues	<u>568,055</u>	<u>537,023</u>	<u>4,714,062</u>	<u>4,781,268</u>	<u>5,282,117</u>	<u>5,318,291</u>
Expenses						
Community center	4,791	7,894	-	-	4,791	7,894
Lighting and landscaping Zone 8	493,040	455,996	-	-	493,040	455,996
Lighting and landscaping Zone 9	107,168	53,533	-	-	107,168	53,533
Water and sewer	<u>-</u>	<u>-</u>	<u>5,426,760</u>	<u>5,051,168</u>	<u>5,426,760</u>	<u>5,051,168</u>
Total expenses	<u>604,999</u>	<u>517,423</u>	<u>5,426,760</u>	<u>5,051,168</u>	<u>6,031,759</u>	<u>5,568,591</u>
Transfers	<u>5,194</u>	<u>-</u>	<u>(5,194)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	(31,750)	19,600	(717,892)	(269,900)	(749,642)	(250,300)
Contributed capital	-	100,222	-	538,500	-	638,722
Net assets, beginning of year	<u>3,672,709</u>	<u>3,552,887</u>	<u>39,195,113</u>	<u>38,926,513</u>	<u>42,867,822</u>	<u>42,479,400</u>
Net assets, end of year	<u>\$ 3,640,959</u>	<u>\$ 3,672,709</u>	<u>\$38,477,221</u>	<u>\$39,195,113</u>	<u>\$42,118,180</u>	<u>\$42,867,822</u>

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Management’s Discussion and Analysis

June 30, 2011

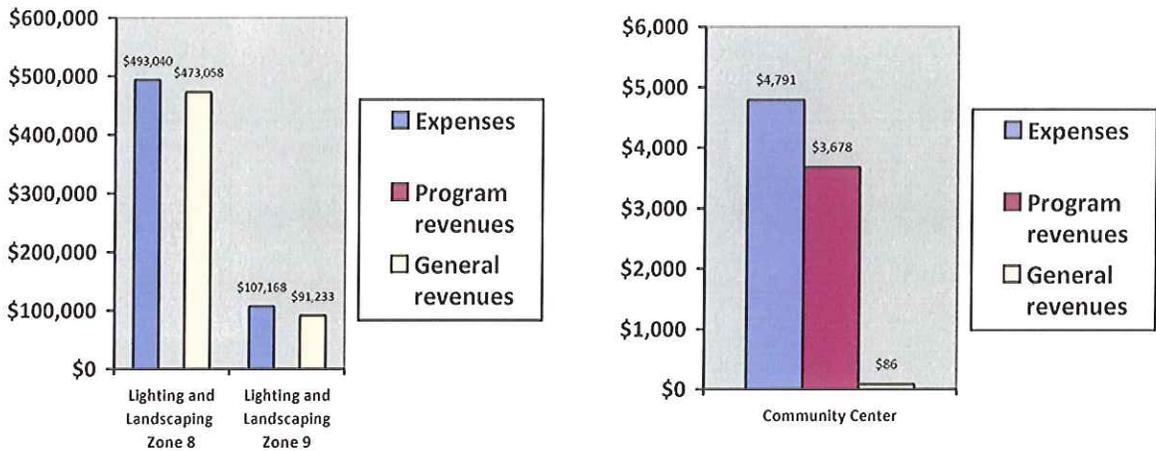
Financial Analysis of the Government-wide Financial Statements (Continued)

The \$749,642 decrease in net assets is attributed to each function as follows:

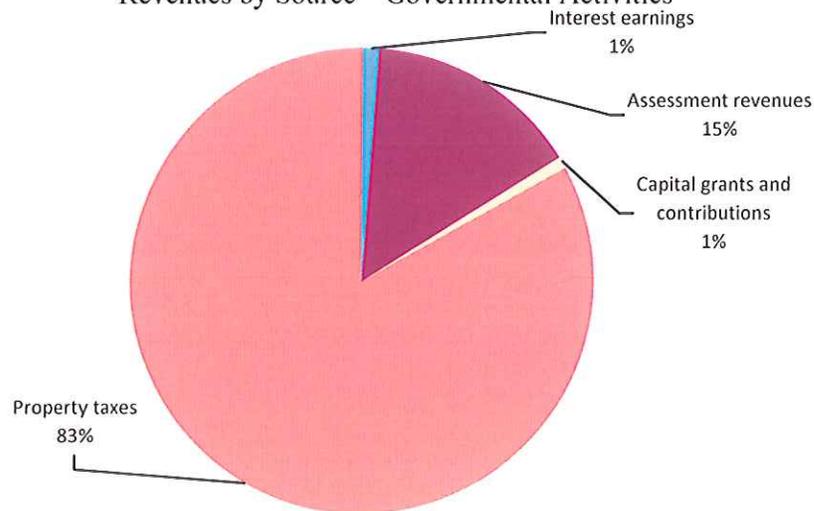
Governmental Activities

- Property tax revenue increased by \$16,799 due to an increase in current secured property taxes.
- Costs for repairs and maintenance increased \$30,910 (13%). Costs for salaries increased \$43,489 (90%).

Expenses and Revenues – Governmental Activities



Revenues by Source – Governmental Activities



(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis

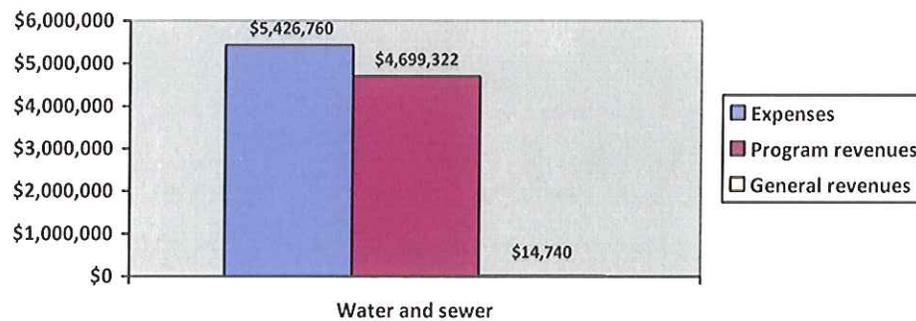
June 30, 2011

Financial Analysis of the Government-wide Financial Statements (Continued)

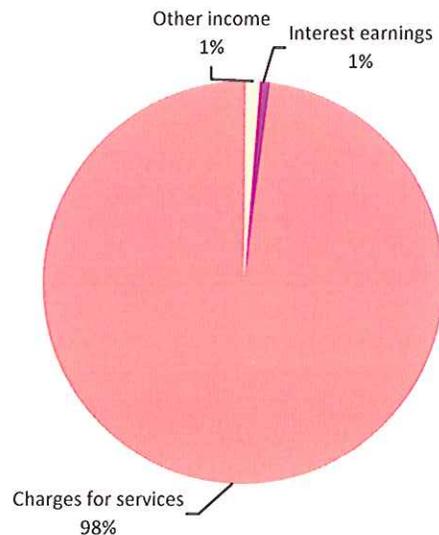
Business-type Activities

- Revenues from investment earnings decreased \$5,244 (49%) due to a decrease in interest rates during fiscal year 2011.
- Revenues from water and sewer usage charges decreased \$56,661 (1%).
- Expenses increased \$378,070 (8%) primarily due to higher depreciation, repairs and maintenance, contract services, and payroll costs.

Expenses and Revenues – Business-type Activities



Revenues by Source – Business-type Activities



TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis

June 30, 2011

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's governmental funds is to provide information on the short-term inflows and outflows and balances of current expendable resources. In particular, the *unassigned fund balance* presented in the balance sheet may serve as a useful measure of the District's resources available for spending at the end of its fiscal year.

As of the end of the current fiscal year, the District's combined governmental fund expenditures exceeded revenues by \$473,594 primarily due to increased expenditures. This resulted in a \$473,594 decrease in the combined ending fund balance of the District's governmental funds. The fund balance of the Lighting and landscaping Zone 8 fund decreased by \$338,922, the fund balance of the Lighting and landscaping Zone 9 fund decreased by \$138,839, and the fund balance of the community center fund increased by \$4,167. At year-end, the combined fund balance of governmental funds was \$2,034,344, consisting of unassigned funds, which is available for spending at the government's discretion.

Proprietary Funds

The District's proprietary fund statements provide the same type of information, in more detail, on the business-type activities presented in the government-wide financial statements.

The net assets of the proprietary funds decreased by \$717,892 from \$39,195,113 to \$38,477,221. The net assets included \$5,568,627 in unrestricted net assets which has decreased by \$245,198 or 5% from the previous year. The decrease in unrestricted net assets is primarily due to an increase in operating expenses.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District's investment in capital assets amounted to \$34,477,648 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, vehicles, structures and improvements, and treatment and collection.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis

June 30, 2011

Capital Asset and Debt Administration (Continued)

The District's total investment in capital assets before depreciation increased by \$1,228,891 from \$40,258,287 to \$41,487,178. Significant additions to capital assets included:

- Discovery Point sewer pipeline replacement (\$168,100)
- UV water purification system and bypass pipeline (\$316,453)
- Discovery Bay Boulevard/Sand Point Landscape Improvements (\$190,617)

The following table displays the changes in District's capital assets, net of accumulated depreciation.

Town of Discovery Bay Community Services District's Capital Assets
(net of depreciation, in rounded dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 258,083	\$ 258,083	\$ 267,000	\$ 267,000	\$ 525,083	\$ 525,083
Buildings and improvements	1,636,692	1,392,409	1,180,273	258,370	2,816,965	1,650,779
Treatment and collection	-	-	28,981,928	28,684,047	28,981,928	28,684,047
Structure and improvements	-	-	6,689,926	6,689,926	6,689,926	6,689,926
Equipment	30,342	23,342	866,177	804,070	896,519	827,412
Office furniture and equipment	4,309	4,309	-	-	4,309	4,309
Vehicles	34,079	16,586	356,928	356,928	391,007	373,514
Construction in progress	282,733	32,269	898,708	1,470,948	1,181,441	1,503,217
Total	2,246,238	1,726,998	39,240,940	38,531,289	41,487,178	40,258,287
Less accumulated depreciation	(677,184)	(607,895)	(6,332,346)	(5,150,001)	(7,009,530)	(5,757,896)
Net capital assets	<u>\$ 1,569,054</u>	<u>\$ 1,119,103</u>	<u>\$32,908,594</u>	<u>\$33,381,288</u>	<u>\$34,477,648</u>	<u>\$34,500,391</u>

Additional information on the District's capital assets can be found in Note E of the "Notes to Financial Statements" section.

Economic Factors and Next Year's Budgets and Rates

During August 2011, in accordance with Proposition 218, the District approved an increase in rates for water and wastewater service charges of 17% effective July 1, 2011. During August 2011, the District approved to increase the assessment rate by 37% for Ravenswood Improvement District (L & L #9) for the fiscal year 2011-2012.

Residential development will continue, but at a much slower pace compared with the past several years, resulting in revenues from water and wastewater capacity fees that are lower than recent years.

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis

June 30, 2011

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's financial accountability and compliance with applicable laws for all those with an interest in the District's finances. Questions concerning any of the information provided in this report, or requests for additional financial information can be addressed to Town of Discovery Bay Community Services District, Attention: General Manager, 1800 Willow Lake Road, Discovery Bay, California 94505.

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Statement of Net Assets

June 30, 2011

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Assets			
Cash and investments	\$ 2,189,775	\$ 5,829,745	\$ 8,019,520
Accounts receivable, net of allowance for doubtful accounts	5,034	334,042	339,076
Note receivable	45,668	-	45,668
Advances on taxes	894	832	1,726
Due from other funds	3,184	60,474	63,658
Inventory	13,239	-	13,239
Capital assets, net of accumulated depreciation	<u>1,569,054</u>	<u>32,908,594</u>	<u>34,477,648</u>
Total assets	<u>3,826,848</u>	<u>39,133,687</u>	<u>42,960,535</u>
Liabilities			
Accounts payable	166,541	592,831	759,372
Accrued payroll	5,583	22,973	28,556
Deferred revenue	-	15,933	15,933
Due to other funds	7,018	83	7,101
Long-term liabilities			
Compensated absences	<u>6,747</u>	<u>24,646</u>	<u>31,393</u>
Total liabilities	<u>185,889</u>	<u>656,466</u>	<u>842,355</u>
Net Assets			
Invested in capital assets, net of related debt	1,569,054	32,908,594	34,477,648
Unrestricted	<u>2,071,905</u>	<u>5,568,627</u>	<u>7,640,532</u>
Total net assets	<u>\$ 3,640,959</u>	<u>\$ 38,477,221</u>	<u>\$ 42,118,180</u>

The accompanying notes are an integral part of this financial statement.

STATEMENT OF ACTIVITIES

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Statement of Activities

For the year ended June 30, 2011

		Program revenues		
	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Governmental activities				
General government	\$ -	\$ -	\$ -	\$ -
Community center	4,791	-	-	3,678
Lighting and landscaping Zone 8	493,040	-	-	-
Lighting and landscaping Zone 9	<u>107,168</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>604,999</u>	<u>-</u>	<u>-</u>	<u>3,678</u>
Business-type activities				
Water and sewer	<u>5,426,760</u>	<u>4,699,322</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>5,426,760</u>	<u>4,699,322</u>	<u>-</u>	<u>-</u>
Total government	<u>\$ 6,031,759</u>	<u>\$ 4,699,322</u>	<u>\$ -</u>	<u>\$ 3,678</u>

General revenues

 Taxes

 Property taxes

 Homeowners property tax relief

 Other

 Assessments

 Investment income

 Other income

Transfers

 Total general revenues and transfers

Change in net assets

Net assets, beginning of year

Net assets, end of year

Net (expense) revenue and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ -	\$ -	\$ -
(1,113)	-	(1,113)
(493,040)	-	(493,040)
<u>(107,168)</u>	<u>-</u>	<u>(107,168)</u>
<u>(601,321)</u>	<u>-</u>	<u>(601,321)</u>
<u>-</u>	<u>(727,438)</u>	<u>(727,438)</u>
<u>-</u>	<u>(727,438)</u>	<u>(727,438)</u>
<u>(601,321)</u>	<u>(727,438)</u>	<u>(1,328,759)</u>
462,110	-	462,110
4,967	-	4,967
24	-	24
83,404	-	83,404
490	5,533	6,023
13,382	9,207	22,589
<u>5,194</u>	<u>(5,194)</u>	<u>-</u>
<u>569,571</u>	<u>9,546</u>	<u>579,117</u>
(31,750)	(717,892)	(749,642)
<u>3,672,709</u>	<u>39,195,113</u>	<u>42,867,822</u>
<u>\$ 3,640,959</u>	<u>\$ 38,477,221</u>	<u>\$ 42,118,180</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

**Balance Sheet
Governmental Funds**

June 30, 2011

			Special revenue funds		
	General <u>fund</u>	Community <u>center</u>	Lighting and landscaping <u>Zone 8</u>	Lighting and landscaping <u>Zone 9</u>	Total governmental <u>funds</u>
Assets					
Cash and investments	\$ -	\$ 535,349	\$ 1,526,007	\$ 128,419	\$ 2,189,775
Accounts receivable	-	-	-	5,034	5,034
Advances on taxes	-	-	894	-	894
Inventory	-	13,239	-	-	13,239
Due from other funds	-	-	3,184	-	3,184
Total assets	\$ -	\$ 548,588	\$ 1,530,085	\$ 133,453	\$ 2,212,126
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 143,905	\$ 21,276	\$ 165,181
Accrued payroll	-	-	5,583	-	5,583
Due to other funds	-	-	7,018	-	7,018
Total liabilities	-	-	156,506	21,276	177,782
Fund balances					
Committed to:					
Community center	-	548,588	-	-	548,588
Lighting and landscaping Zone 8	-	-	1,373,579	-	1,373,579
Lighting and landscaping Zone 9	-	-	-	112,177	112,177
Total fund balances	-	548,588	1,373,579	112,177	2,034,344
Total liabilities and fund balances	\$ -	\$ 548,588	\$ 1,530,085	\$ 133,453	\$ 2,212,126
Reconciliation to statement of net assets					
Total governmental fund balances					2,034,344
Amounts reported for governmental activities in the statement of net assets are different because:					
Notes receivable in governmental funds are not available to pay for current period expenditures					45,668
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					1,569,054
Long-term liabilities are not due and payable in the current period, and, therefore, are not reported in the balance sheet of governmental funds					(6,747)
Accounts payable that are not due and payable in the current period, and, therefore, is not reported in the governmental funds balance sheet					(1,360)
Net assets of governmental activities					\$ 3,640,959

The accompanying notes are an integral part of this financial statement.

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds**

For the year ended June 30, 2011

			Special revenue funds		
	General fund	Community center	Lighting and landscaping Zone 8	Lighting and landscaping Zone 9	Total governmental funds
Revenues					
Property taxes	\$ -	\$ -	\$ 460,268	\$ -	\$ 460,268
Assessment income	-	-	-	83,404	83,404
Investment income	-	86	404	-	490
Homeowners property tax relief	-	-	4,967	-	4,967
Other	-	-	7,419	7,829	15,248
Contributions	-	3,678	-	-	3,678
Total revenues	-	3,764	473,058	91,233	568,055
Expenditures					
Repairs and maintenance	-	-	219,287	49,412	268,699
Utilities	-	-	97,794	13,196	110,990
Payroll	-	-	68,241	23,345	91,586
Other	-	4,662	19,277	8,429	32,368
Insurance	-	-	6,921	490	7,411
Professional fees	-	129	9,438	6,899	16,466
Capital outlay	-	-	391,022	128,301	519,323
Total expenditures	-	4,791	811,980	230,072	1,046,843
Excess (deficiency) of revenues over expenditures	-	(1,027)	(338,922)	(138,839)	(478,788)
Other financing sources					
Operating transfers in	-	5,194	-	-	5,194
Total other financing sources	-	5,194	-	-	5,194
Net change in fund balances	-	4,167	(338,922)	(138,839)	(473,594)
Fund balances, beginning of year	-	544,421	1,712,501	251,016	2,507,938
Fund balances, end of year	\$ -	\$ 548,588	\$ 1,373,579	\$ 112,177	\$ 2,034,344

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds (Continued)**

For the year ended June 30, 2011

Reconciliation to statement of activities

Net change in fund balances -- governmental funds	\$ (473,594)
Amounts reported for governmental activities in the statement of net assets are different because of the following:	
Depreciation expense related to capital assets is recognized in the statement of activities, but is not reported in the funds	(69,372)
Governmental funds report capital outlays as expenditures while governmental activities record depreciation expense to allocate those expenditures over the life of the assets	519,323
Change in accrued vacation is recorded as an expense in the statement of activities	(6,747)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	<u>(1,360)</u>
Change in net assets of governmental activities	<u>\$ (31,750)</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

**Statement of Net Assets
Proprietary Fund**

June 30, 2011

	<u>Water and sewer fund</u>
Assets	
Current assets	
Cash and investments	\$ 5,829,745
Accounts receivable, net of allowance for doubtful accounts of \$36,905	334,042
Advances on taxes	832
Due from other funds	<u>60,474</u>
Total current assets	<u>6,225,093</u>
Capital assets, net of accumulated depreciation	<u>32,908,594</u>
Total assets	<u>39,133,687</u>
Liabilities and Net Assets	
Current liabilities (payable from current assets)	
Accounts payable	592,831
Accrued payroll	22,973
Due to other funds	83
Deferred revenue	<u>15,933</u>
Total current liabilities	631,820
Noncurrent liabilities	
Compensated absences	<u>24,646</u>
Total liabilities	<u>656,466</u>
Net Assets	
Invested in capital assets, net of related debt	32,908,594
Unrestricted	
Board designated	3,000,000
Undesignated	<u>2,568,627</u>
Total net assets	<u>\$ 38,477,221</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

**Statement of Revenues, Expenses and Change in Net Assets
Proprietary Fund**

June 30, 2011

	<u>Water and sewer fund</u>
Operating revenues	
Charges for services	\$ 4,582,170
Reimbursements	116,102
Other	9,207
Connection fees	<u>1,050</u>
Total operating revenues	<u>4,708,529</u>
Operating expenses	
Contract services	1,649,903
Depreciation	1,182,345
Repairs and maintenance	834,362
Utilities	642,705
Payroll	606,412
Professional fees	127,106
Chemicals	101,406
Employee benefits	60,199
Insurance	57,636
Permits and fees	54,676
Miscellaneous	28,123
Directors' expenses	26,336
Telephone and communications	21,451
Supplies	20,140
Memberships	6,123
Public communication	4,190
Staff training	<u>3,647</u>
Total operating expenses	<u>5,426,760</u>
Operating loss	<u>(718,231)</u>
Nonoperating revenues (expenses)	
Interest income	<u>5,533</u>
Total nonoperating revenues (expenses)	<u>5,533</u>
Net loss before transfers	(712,698)
Transfers out	<u>(5,194)</u>
Change in net assets	(717,892)
Net assets, beginning of year	<u>39,195,113</u>
Net assets, end of year	<u>\$ 38,477,221</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

**Statement of Cash Flows
Proprietary Fund**

June 30, 2011

	<u>Water and sewer fund</u>
Cash flows from operating activities	
Receipts from customers	\$ 4,618,120
Payments to suppliers for goods and services	(3,408,375)
Payments to employees and directors	(610,699)
Payments to other funds for services	<u>(8,778)</u>
Net cash provided by operating activities	<u>590,268</u>
Cash flows from noncapital financing activities	
Transfer to other funds	<u>(5,194)</u>
Net cash used in noncapital financing activities	<u>(5,194)</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(709,651)</u>
Net cash used in capital and related financing activities	<u>(709,651)</u>
Cash flows from investing activities	
Interest income	<u>5,533</u>
Net cash provided by investing activities	<u>5,533</u>
Net decrease in cash and cash equivalents	(119,044)
Cash and cash equivalents, beginning of year	<u>5,948,789</u>
Cash and cash equivalents, end of year	<u>\$ 5,829,745</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (718,231)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	1,182,345
Change in assets and liabilities	
Accounts receivable	(89,290)
Prepaid expenses	47,626
Due from other funds	(8,861)
Accounts payable	155,666
Accrued payroll	(2,597)
Compensated absences	24,646
Deferred revenue	(1,119)
Due to other funds	<u>83</u>
Net cash provided by operating activities	<u>\$ 590,268</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note A – Summary of Significant Accounting Policies

This summary of significant accounting policies of the Town of Discovery Bay Community Services District (the District) is presented to assist in understanding the District's financial statements.

Description of the reporting entity

The Town of Discovery Bay Community Services District, formerly known as Discovery Bay Community Services District was formed by the residents of Discovery Bay under the authority of the Cortese-Knox Act (Gov. C. Sec. 56000). This newly formed special district was formed as a result of a petition of residents to provide services to the residents of Discovery Bay. Effective July 1, 1998, the District assumed the responsibilities, funding, and assets previously held by the dissolved Sanitation District #19. During November 1998, the residents of Discovery Bay voted to activate the latent powers of the District to include recreation; specifically, to acquire, fund, and operate a Community Center.

Effective August 13, 2003, the Local Agency Formation Commission (LAFCO) of Contra Costa County dissolved County Service Area M-8 and annexed the territory to the Town of Discovery Bay Community Services District. The District is responsible for maintaining the lighting, landscaping, and parks within Service Area M-8 of the Town of Discovery Bay.

The Town of Discovery Bay Community Services District formed an assessment district known as Ravenswood Improvement District – Discovery Bay Lighting and landscaping Zone 9 for the purpose of providing for the operation and maintenance of landscaping, parks and open space in the subdivision known as Ravenswood.

The purpose of the Town of Discovery Bay Community Services District, a multipurpose independent district, is to represent the residents of Discovery Bay in any matters covered under the California Government Code relating to a Community Services District. In addition to the purposes listed in the Government Code, the District has been ordered by LAFCO and the Board of Supervisors to perform an advisory role for the residents of Discovery Bay. This role includes, but is not limited to, advising the County in matters of land use planning, zoning, compliance, roads and streets, lighting, landscaping, parks and public safety services. The District also provides water and sewer services to the Town of Discovery Bay.

Government-wide financial statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. These statements include the financial activities of the overall District government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund financial statements

Fund financial statements of the reporting entity are organized into 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 constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The District presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

The General Fund is the primary operating fund of the District and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the District. The reporting entity includes the following special revenue funds, all of which are reported as major funds:

<u>Fund</u>	<u>Brief description</u>
Community Center	Accounts for revenues and expenditures of acquiring, funding, and operating a community center.
Lighting and landscaping Zone 8	Accounts for revenues and expenditures related to maintenance of community lighting and landscape features in Zone 8.
Lighting and landscaping Zone 9	Accounts for revenues and expenditures related to operation and maintenance of landscaping, parks and open space in the subdivision known as Ravenswood.

Proprietary Funds

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise funds, all of which are reported as major funds:

<u>Fund</u>	<u>Brief description</u>
Water and Sewer Fund	Accounts for the activities of providing water and wastewater services to the residents of the District. All activities necessary to provide such services are accounted for in this fund, including administration, operations, capital improvements, maintenance, financing and related debt service, and billing and collection.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The District's operating revenues include all revenues derived from water and sewage services. Operating expenses include all costs related to water and sewage services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, except for capital contributions, which represent capital contributions collected for the acquisition or construction of capital assets.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Measurement focus

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of accounting

In the government-wide Statement of Net Assets and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.”

Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Cash, cash equivalents and investments

For the purpose of financial reporting “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. This also includes short term commercial paper and U.S. Agency bonds.

Investments are stated at cost, which approximates fair value.

Accounts receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The District provides for losses on accounts receivable using the allowance method. The allowance is based on historical experience and management’s evaluation of outstanding accounts receivable.

Inventory

Inventory held in the special revenue fund is carried at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital assets

All capital assets are valued at historical cost or estimated historical cost. The District’s policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

Depreciation has been provided on capital assets and is charged as an expense against operations each year. The total amount of depreciation taken over the years is reported on the balance sheet as a reduction in the book value of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets.

Structures and improvements	5-50 years
Equipment	5-25 years
Vehicles	5 years

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Compensated absences

Compensated absences are accrued as earned by employees, and consist of accruals for vacation time. The District's liability for compensated absences is reported in the Statement of Net Assets for governmental activities in the government-wide financial statements.

Net assets

Equity in the government-wide statements is classified as net assets and displayed in three components as follows:

- a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

Governmental fund equity in the fund financial statements is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statement.

Fund balance

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components: nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Restricted – includes amounts that have constraints placed on them either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the District to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority which includes the District charter, ordinances and resolutions. Those committed amounts cannot be used for any other purpose unless the District removes or changes the specified use by taking the same type of action (District charter, ordinance and resolution) it employed previously to commit those amounts.

Assigned – includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Board of Trustees, District manager or their designee as established in the District's Fund Balance Policy.

Unassigned – includes amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the District's policy to use committed resources first, then assigned, and then unassigned as they are needed.

Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund loans – Amounts provided with a requirement for repayment are reported as interfund receivables and payables.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

2. Interfund services – Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Interfund reimbursements – Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
4. Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances – Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
2. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

Property taxes

Property taxes and property assessments were levied January 1, 2010, assessed July 1, 2010 and were payable in two installments on December 10, 2010 and April 10, 2011. The County of Contra Costa bills and collects property taxes on behalf of the District.

Contributed capital

Effective August 13, 2003, the District recorded contributed capital to transfer funds from County Service M-8 to Lighting and landscaping Zone 8. The Lighting and landscaping Zone 8 district became the responsibility of the District on August 13, 2003. The contributed capital represents all capital assets and assets transferred to the District.

The District has received \$18,757,813 of noncash capital contributions from developers consisting of water and sewer infrastructure.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Budgetary accounting

The District does not adopt appropriated budgets. However, the District does adopt non-appropriated budgets annually, which are approved by the Board of Directors.

Long-lived assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

New accounting pronouncements

The District implemented Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011. This Statement did not have a material impact on the financial statements.

Note B – Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 8,019,520
Total cash and investments	\$ 8,019,520

Cash and investments as of June 30, 2011 consist of the following:

Deposits with financial institutions	\$ 668,811
Contra Costa County Treasurer	4,093,060
Investments	<u>3,257,649</u>
	\$ 8,019,520

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note B – Cash and Investments (Continued)

<u>Investment Type</u>	<u>Carrying value</u>	<u>Fair value</u>
U.S. Agencies – Bonds	\$ 3,251,000	\$ 3,251,000
Certificate of Deposit	<u>6,649</u>	<u>6,649</u>
	<u>\$ 3,257,649</u>	<u>\$ 3,257,649</u>

The District maintains a cash and investment pool that is available for use by all funds except for the Lighting and landscaping fund whose investments were directed by Contra Costa County. Each fund type's portion of this pool is displayed on the statement of net assets and balance sheet as "cash and investments". Cash balances from all participating funds are combined and invested to the extent possible, pursuant to the Board of Directors approved Investment Policy and guidelines, and the California Government Code Section 53600.

The Government Code and the District's Investment Policy allow investments in the following instruments:

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Authorized Limit%</u>	<u>Required Rating</u>
Local Agency Bonds	N/A	None	None
U.S. Treasury Bills, Notes or Bonds	N/A	None	None
State Registered Warrants, Notes, or Bonds	N/A	None	None
Notes and bonds of other Local California Agencies including pooled investment accounts	N/A	None	None
U.S. Agencies	N/A	None	None
Bankers Acceptances	270 days	40%	None
Prime Commercial Paper	180 days	15% or 30%	A1/P1
Negotiable Certificates of Deposit	N/A	30%	None
Repurchase and Reverse Repurchase Agreements	N/A	None/20%	None
Medium Term Corporate Notes	5 years	30%	A
Money Market Mutual Funds	N/A	15%	2-AAA
Collateralized Bank Deposits	N/A	None	None
Mortgage Pass-Through Securities	5 years	30%	AA
Funds held under the Terms of a Trust Indenture or other contract	*	*	*

*Such funds may be invested according to the provisions of those indentures or agreements.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note B – Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District’s investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity:

<u>Investment Type</u>	<u>Totals</u>	<u>12 months or less</u>	<u>13 – 24 months</u>	<u>25-36 months</u>	<u>37 – 48 months</u>	<u>49 – 60 months</u>	<u>More than 60 months</u>
U.S. Agencies – Bonds	\$ 3,251,000	\$ 3,251,000	\$ -	\$ -	\$ -	\$ -	\$ -
Certificate of Deposit	6,649	-	6,649	-	-	-	-
Total	<u>\$ 3,257,649</u>	<u>\$ 3,251,000</u>	<u>\$ 6,649</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District’s investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>				<u>As of Investment</u>
				<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>	
U.S. Agencies – Bonds	\$3,251,000	N/A	\$ -	\$3,251,000	\$ -	\$ -	\$ -	99%
Certificate of Deposit	6,649	N/A	-	-	-	-	6,649	1%
Total	<u>\$3,257,649</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$3,251,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,649</u>	<u>100%</u>

Concentration of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in certain types of investments.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note B – Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. 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 government 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Deposits with financial institutions and Contra Costa County Treasurer

Cash on deposit in commercial accounts is insured by the FDIC. Cash held by the Contra-Costa County Treasury is pooled with other County deposits for investment purposes by the County Treasurer in accordance with the investment policy of the County Treasurer (see County Treasurer's investment policy at <http://www.co.contra-costa.ca.us/>). The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the Pool.

Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed investment income. Investment income is prorated to individual funds based on their average daily cash balances. The value of the District shares in the Pool, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in the Pool. The District's investment in the Pool is unrated, stated at cost which approximates fair value, available upon demand and considered cash equivalents.

Note C – Note Receivable

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to Town of Discovery Bay Community Services District was \$45,668.

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note C – Note Receivable (Continued)

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal year 2012-2013). In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

Note D – Interfund Transactions

Interfund transactions consist of the following:

Transfers between funds

Resources may be transferred from one District fund to another with approval. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the year ended June 30, 2011 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds		
Community Center	\$ -	\$ -
Lighting and landscaping Zone 8 Fund	7,018	3,184
Lighting and landscaping Zone 9 Fund	-	-
Major Proprietary Fund		
Water and Sewer Fund	<u>83</u>	<u>60,474</u>
Total interfund transfers	<u>\$ 7,101</u>	<u>\$ 63,658</u>

In general, the District uses interfund transfers to:

- Transfer unrestricted revenues collected in the water and sewer fund to help finance various programs and capital projects accounted for in other funds
- Fund operations (move revenues from the funds that collect them to the funds that statute or budget requires to expend them)
- Fund interdepartmental cost reimbursement
- Fund capital projects

The effect of the interfund activity has not been eliminated from the government-wide financial statements as the amounts relate to transfers between governmental and business-type activities. The transfers have resulted from deposits made by Contra Costa County into the Sewer and Water Fund for revenues of the Community Center Special Revenue Fund.

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2011, is as follows:

	Balance June 30, 2010	Additions	Deletions	Transfers	Balance June 30, 2011
Governmental activities					
Nondepreciable capital assets					
Land	\$ 258,083	\$ -	\$ -	\$ -	\$ 258,083
Construction in progress	<u>32,269</u>	<u>274,529</u>	<u>-</u>	<u>(24,065)</u>	<u>282,733</u>
Total nondepreciable capital assets	<u>290,352</u>	<u>274,529</u>	<u>-</u>	<u>(24,065)</u>	<u>540,816</u>
Depreciable capital assets					
Equipment	23,342	7,000	-	-	30,342
Buildings and improvements	1,392,409	220,302	(84)	24,065	1,636,692
Office furniture and equipment	4,309	-	-	-	4,309
Vehicles	<u>16,586</u>	<u>17,493</u>	<u>-</u>	<u>-</u>	<u>34,079</u>
Total depreciable capital assets	1,436,646	244,795	(84)	24,065	1,705,422
Less accumulated depreciation	<u>(607,895)</u>	<u>(69,373)</u>	<u>84</u>	<u>-</u>	<u>(677,184)</u>
Net depreciable capital assets	<u>828,751</u>	<u>175,422</u>	<u>-</u>	<u>24,065</u>	<u>1,028,238</u>
Net capital assets	<u>\$ 1,119,103</u>	<u>\$ 449,951</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,569,054</u>
Business-type activities					
Nondepreciable capital assets					
Land	\$ 267,000	\$ -	\$ -	\$ -	\$ 267,000
Construction in progress	<u>1,470,948</u>	<u>18,584</u>	<u>-</u>	<u>(590,824)</u>	<u>898,708</u>
Total nondepreciable capital assets	<u>1,737,948</u>	<u>18,584</u>	<u>-</u>	<u>(590,824)</u>	<u>1,165,708</u>

(Continued)

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note E – Capital Assets (Continued)

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2011</u>
Business-type activities (Continued)					
Depreciable capital assets					
Buildings and improvements	258,370	331,079	-	590,824	1,180,273
Treatment and collection	28,684,047	297,881	-	-	28,981,928
Structures and improvements	6,689,926	-	-	-	6,689,926
Equipment	804,070	62,107	-	-	866,177
Vehicles	<u>356,928</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>356,928</u>
Total depreciable capital assets	36,793,341	691,067	-	590,824	38,075,232
Less accumulated depreciation	<u>(5,150,001)</u>	<u>(1,182,345)</u>	<u>-</u>	<u>-</u>	<u>(6,332,346)</u>
Net depreciable capital assets	<u>31,643,340</u>	<u>(491,278)</u>	<u>-</u>	<u>590,824</u>	<u>31,742,886</u>
Net capital assets	<u>\$ 33,381,288</u>	<u>\$ (472,697)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,908,594</u>

Depreciation expense was charged to function and programs based on their usage of the related assets. The amounts allocated to each function or program were as follows:

Governmental activities:

Lighting and landscaping Zone 8	\$ 65,336
Lighting and landscaping Zone 9	<u>4,037</u>
Total depreciation expense – Governmental activities	<u>\$ 69,373</u>

Business-type activities:

Water and sewer	\$ 1,182,345
Total depreciation expense – Business-type activities	<u>\$ 1,182,345</u>

Note F – Deferred Compensation Plan

Employees of the District may participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan is available to all full-time employees of the District. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. Total employee contributions to the plan during the year ended June 30, 2011 were \$11,937.

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note G – Compensated Absences

Employees accrue vacation leave based on length of service. Accumulated vacation leave is subject to maximum accruals for all employees. As of June 30, 2011, the District's accrued liability for accumulated unused vacation leave is \$31,393. Employees are paid for their accumulated unused vacation leave upon separation from service. The liability is expected to be liquidated with future resources and not with expendable available financial resources.

Note H – Joint Venture (Joint Powers Agreement)

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

In order to insure for risks of loss, the District participates in a joint venture under a joint powers agreement with the Special Districts Risk Management Authority (SDRMA). The relationship between the District and the SDRMA is such that the SDRMA is not a component unit of the District for financial reporting purposes.

The SDRMA arranges for and provides property, liability and worker's compensation coverage for its member districts. The Town of Discovery Bay Community Services District participates in all programs.

Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the SDRMA. The District's share of surpluses and deficits cannot be determined, although District management does not expect such amounts, if any, to be material in relation to the financial statements.

The District is covered by the following types of insurance through the SDRMA as of June 30, 2011:

<u>Coverage</u>	<u>Limits of liability</u>
General liability	\$ 5,000,000
Public officials and employees errors	5,000,000
Personal liability coverage for board members	500,000
Employment practices liability	5,000,000
Employee benefits liability	5,000,000
Employee dishonesty coverage	400,000
Auto liability	5,000,000
Uninsured/underinsured motorists	750,000
Property coverage	1,000,000,000
Boiler and machinery	100,000,000
Statutory workers' compensation	Statutory

TOWN OF DISCOVERY BAY COMMUNITY SERVICES DISTRICT

Notes to Financial Statements

June 30, 2011

Note I – Governing Board

The powers of the District are exercised by a Board of Directors consisting of five directors each elected for a term of four years by the qualified electors within the District.

As of June 30, 2011, the members of the District's Board of Directors were as follows:

<u>Director</u>	<u>Term expires</u>
Kevin Graves	December 2014
Mark Simon	December 2012
Brian Dawson	December 2014
Chris Steele	December 2014
Ray Tetreault	December 2012

Note J – Contingencies and Commitments

The District is involved in litigation arising in the ordinary course of operations that, in the opinion of management, will not have a material effect on the financial condition of the District. In addition, the District has entered into construction and service contracts with various companies. Many of the contracts are considered fixed fee arrangements. However, work under these contracts could be discontinued at the direction of the District. Therefore, it is the opinion of management that a fixed commitment does not exist.