



Financial Statements
June 30, 2021

Emerald Bay Service District

Independent Auditor’s Report 1

Management’s Discussion and Analysis 3

Financial Statements

 Statement of Net Position 9

 Statement of Activities10

 Balance Sheet – Governmental Fund11

 Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position12

 Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund13

 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the
Governmental Fund to the Statement of Activities14

 Notes to Financial Statements15

Required Supplementary Information

 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund29

 Note to Required Supplementary Information30

Other Information

 General Fund - Functional Expenditures Budgetary Comparison Schedule31

Independent Auditor’s 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.....33



Independent Auditor's Report

The Board of Directors
Emerald Bay Service District
Laguna Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Emerald Bay Service District (District) as of and for the year ended June 30, 2021, 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.

Auditor's 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, 2021, and the respective changes in financial position 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The functional expenditures budgetary comparison schedule for the General fund as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The functional expenditures budgetary comparison schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2021, 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, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.



Laguna Hills, California
December 16, 2021

As management of the Emerald Bay Service District (District), we offer readers of the statements, this narrative overview and analysis of the financial activities of the District ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which can be found on pages 9 to 28 of this report.

Operational Overview

The Emerald Bay Service District was organized on November 20, 1961, under the Community Services District Law by resolution of the Board of Supervisors of the County of Orange, California to provide services to the Emerald Bay residents. Currently, the District has been authorized by the Orange County Local Agency Formation Commission to provide sewage, solid waste, water, fire protection, parks and recreation, health and safety, weed abatement, emergency response, law enforcement, security and other public services to the Emerald Bay Community.

The residents of the Emerald Bay Community have a long history of volunteerism. The District's elected officials voluntarily serve the community and do not receive compensation, benefits or reimbursement for out-of-pocket expenses incurred while conducting District business. Under the Orange County Fire Authority, the Emerald Bay Fire Station continues to be one of the three remaining level 1 stations that are serviced by volunteers. The District is a non-enterprise special district, which means that the revenues are derived from property taxes and no fees are charged for the services provided. The District's service area is directly related to the Emerald Bay Community Association (EBCA).

The District has one employee, the General Manager, who provides supervision for the day to day operation of the District's facilities. The District contracts the services of a registered professional engineer who provides project plans and equipment specifications and a Certified Public Accountant who provides monthly board reports and compliance reporting. Additionally, the District contracts for administrative and field support from the EBCA employees and rents office space in the EBCA's Community Center. The District also leases from the EBCA the property needed to support the District's sewer and water facilities. The District's attorney is the law firm of Stradling Yocca Carlson & Rauth.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$11,862,835 (net position). Of this amount \$3,127,776 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$916,305. This increase is attributable to additional investment in the District's infrastructure, as well as the reduction on bond debt of \$145,896.
- Cash and investments available to the District increased by \$717,353, this increase was due to increased property taxes as well as the lower interest rate due to the refinance of the bond debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

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

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial 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. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds - 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 near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget and the subsequent approved budget adjustments as part of required supplementary information.

The fund financial statements can be found on pages 11 to 14 of this report. The required supplementary information can be found on pages 29 to 30.

Notes to the financial statements - The notes provide additional information that is essential to gain a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 15 to 28 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve, over time, as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$11,862,835 at the close of the most recent fiscal year. Approximately 73.6% of the District's net position reflects its net investment in capital assets (e.g., infrastructure and equipment). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**Emerald Bay Service District
Statement of Net Position – Governmental Activities**

	June 30, 2021	June 30, 2020	Change
Assets			
Current and other assets	\$ 3,421,940	\$ 2,642,740	\$ 779,200
Capital assets	14,328,305	14,202,559	125,746
Total assets	17,750,245	16,845,299	904,946
Current Liabilities	447,581	483,936	(36,355)
Noncurrent liabilities	5,439,829	5,414,833	24,996
Total liabilities	5,887,410	5,898,769	(11,359)
Net Position			
Net investment in capital assets	8,735,059	8,427,622	307,437
Unrestricted	3,127,776	2,518,908	608,868
Total net position	\$ 11,862,835	\$ 10,946,530	\$ 916,305

None of the District's net position is subject to external restrictions. The balance of unrestricted net position may be used to meet the District's ongoing obligations.

**Emerald Bay Service District
Statement of Activities – Governmental Activities**

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Change</u>
General Revenues			
Property tax	\$ 2,842,302	\$ 2,652,590	\$ 189,712
Investment income	1,549	59,417	(57,868)
Other	53,586	58,843	(5,257)
	<u>2,897,437</u>	<u>2,770,850</u>	<u>126,587</u>
Expenses			
General government	1,221,508	1,140,776	80,732
Public services	610,182	566,840	43,342
Recreation and safety	495,942	429,974	65,968
Interest and fiscal charges	153,500	200,746	(47,246)
	<u>2,481,132</u>	<u>2,338,336</u>	<u>142,796</u>
Change in Net Position	416,305	432,514	(16,209)
Net Position - Beginning of Year	<u>10,946,530</u>	<u>10,514,016</u>	<u>432,514</u>
Net Position - End of Year	<u>\$ 11,362,835</u>	<u>\$ 10,946,530</u>	<u>\$ 416,305</u>

Financial Analysis of the Government'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 near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2021, the District's governmental fund reported an ending fund balance of \$3,158,681, an increase of \$646,930 as compared to the prior fiscal year. Unassigned fund balance of \$1,370,317 is available for spending at the District's discretion. The Board has assigned \$1,635,367 for future capital improvement projects.

The fund balance of the District's general fund increased by \$646,930 during the current fiscal year. This increase can be compared to a decrease of \$38,973 in the prior fiscal year. Key factors in the changes are as follows:

- Capital expenditures for infrastructure and equipment decreased from \$986,978 in the prior fiscal year to \$428,207.
- The Board of Directors of the Emerald Bay Service District approved to refinance the 2015 Installment Sales Agreement at the September 16, 2020 Board Meeting. The interest rate was reduced from 3.45% to 2.40% and principal payments were delayed from the October 2020 payment until April 2022.
- Cost reimbursements included in other income decreased by \$18,404 and primarily consisted of reimbursements from SOCWA.

General Fund Budgetary Highlights

The preliminary budget was adjusted as necessary by action of the Board in accordance with laws and policy. The following is a comparison of actual revenues and expenditures to the Final Board Approved Budget:

- The District estimated a conservative 4% increase in property taxes when developing and approving the original budget approved in August 2020. Subsequently, the Board approved budget adjustments on March 16, 2021 to accurately project the actual revenue. Actual revenues exceeded the Final Budget by \$33,760 or 1.2%.
- General government expenditures were \$721,293 or 7.8% less than the final budget; public services, water and sewer expenditures were \$311,163 or 10.8% less than the final budget, and recreation and safety expenditures were \$495,942 or less than 3.9% of the final budget. In summary, the total operating expenditures were under budget by \$245,849 or 9.7% below the total final approved budget.

Capital expenditures for infrastructure and equipment were \$424,980 or \$144,020 less than the final budget.

Capital Asset and Debt Administration

Capital Assets - The District spent \$424,980 on infrastructure assets and equipment.

Additional information on the District's capital assets can be found in Note 5 on page 24 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Long-term debt - At the end of the current fiscal year the District's debt consisted of bond financing issued for \$7,000,000 in April 2015 with an outstanding balance of \$5,554,521 at June 30, 2021. Additional information can be found in Note 6 starting on page 24 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Woods Center for Economic Analysis and Forecasting at California State University Fullerton reported that Orange County employment levels are expected to reach the pre-pandemic levels by the end of 2022. The median price of a single-family home in Orange County rose by 14.5% in the first eight months of 2021 and is expected to continue to increase by 6% in 2022. The County has been experiencing higher than expected inflation rates with forecasters expecting at least 4% increase in prices in 2022. The District is experiencing higher than expected construction costs for its Capital Projects and may choose to delay or modify its Capital Improvement Plan over the next few years.

Assessed property values continue to increase for the addresses included within the District's property tax allocations. Since 2011 the County of Orange, including Emerald Bay, has seen a steady appreciation in real estate pricing, which in turn, has a direct effect on assessed valuations of properties within the District. The District's Board of Directors and staff relied on this information during the development of the fiscal year 2021-2021 annual budget. Increases in estimated property taxes are estimated to be 6% for the upcoming year.

This financial report is designed to provide a general overview of the Emerald Bay Service District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the District's Office: Emerald Bay Service District, Attn: Michael Dunbar, General Manager, 600 Emerald Bay, Laguna Beach, California 92651.

Emerald Bay Service District
Statement of Net Position
June 30, 2021

	Governmental Activities
Assets	
Cash and investments	\$ 3,212,985
Taxes receivable	53,387
Interest receivable	2,571
Other assets	152,997
Capital assets, net of accumulated depreciation	14,328,305
Total assets	17,750,245
Liabilities	
Current Liabilities	
Accounts payable and accrued expenses	193,735
Accrued interest payable	30,905
Due to Emerald Bay Community Association	69,524
Current portion of long-term liabilities	153,417
Total current liabilities	447,581
Non-Current Liabilities	
Non-current portion of long-term liabilities	5,439,829
Total liabilities	5,887,410
Net Position	
Net investment in capital assets	8,735,059
Unrestricted	3,127,776
Total net position	\$ 11,862,835

Emerald Bay Service District

Statement of Activities

For the Year Ended June 30, 2021

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u> Capital Grants and Contributions	<u>Net (Expenses) and Changes in Net Position</u>
Governmental activities			
General government	\$ 1,221,508	\$ -	\$ (1,221,508)
Public services water and sewer services	610,182	500,000	(110,182)
Recreation and safety	495,942	-	(495,942)
Interest and fiscal charges	153,500	-	(153,500)
	<u>\$ 2,481,132</u>	<u>\$ 500,000</u>	<u>\$ (1,981,132)</u>
General revenues			
			\$ 2,842,302
Taxes			1,549
Investment income			53,586
Miscellaneous			<u>53,586</u>
			<u>2,897,437</u>
			916,305
			<u>10,946,530</u>
			<u>\$ 11,862,835</u>

Emerald Bay Service District
Balance Sheet – Governmental Fund
June 30, 2021

Assets	
Cash and investments	\$ 3,212,985
Taxes receivable	53,387
Interest receivable	2,571
Other assets	<u>152,997</u>
Total assets	<u>\$ 3,421,940</u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable and accrued expenses	\$ 193,735
Due to Emerald Bay Community Association	<u>69,524</u>
Total liabilities	<u>263,259</u>
Fund balance	
Nonspendable	152,997
Assigned - future capital improvements	1,635,367
Unassigned	<u>1,370,317</u>
Total fund balance	<u>3,158,681</u>
Total liabilities and fund balance	<u>\$ 3,421,940</u>

Emerald Bay Service District
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position
June 30, 2021

Fund balance of governmental fund	\$ 3,158,681
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	
Capital assets, net of accumulated depreciation	14,328,305
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	
Installment Sales Agreement	(5,554,521)
Capital lease	(38,725)
Accrued interest payable on long-term liabilities do not require the use of current financial resource and therefore are not reported in the governmental funds.	
Interest payable	<u>(30,905)</u>
Net position of governmental activities	<u><u>\$ 11,862,835</u></u>

Emerald Bay Service District
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund
For the Year Ended June 30, 2021

	General Fund
Revenues	
Taxes	\$ 2,842,302
Investment income	1,549
Other	53,586
Total revenues	2,897,437
Expenditures	
Current	
General government	721,293
Public services water and sewer services	311,163
Recreation and safety	495,942
Capital outlay	424,980
Debt service	
Principal retirement	159,431
Interest and fiscal charges	167,698
Total expenditures	2,280,507
Excess of revenues under expenditures	616,930
Other Financing Sources (Uses)	
Proceeds from refinance - Installment Sales Agreement	5,554,521
Payments to refinance escrow agent - Installment Sales Agreement	(5,524,521)
Total other financing sources (uses)	30,000
Net Change in Fund Balance	646,930
Fund Balance, Beginning	\$2,511,751
Fund Balance, Ending	\$ 3,158,681

Emerald Bay Service District

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the
Governmental Fund to the Statement of Activities
Years Ended June 30, 2021

Net change in fund balance - governmental fund	\$ 646,930
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures. However, in the statement of activities, those costs are capitalized and the assets are depreciated over their estimated useful lives.</p>	
Capital outlay	424,980
Capital contributions	500,000
Depreciation expense	(799,234)
<p>Acquisition and repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position:</p>	
Proceeds from refinance - Installment Sales Agreement	(5,554,521)
Installment Sales Agreement 2015 - repayment	5,670,417
Capital lease repayment	13,535
<p>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. These expenses include changes in interest payable.</p>	
	14,198
Change in Net Position of Governmental Activities	\$ 916,305

Note 1 - Organizational Background

The Emerald Bay Service District (the District) was organized on November 20, 1961, under the Community Services District Law to provide services to the residents living in the unincorporated area of Orange County, California known as Emerald Bay. The District was authorized by an election held on November 14, 1961, and subsequently approved by a resolution of the Board of Supervisors of Orange County. Currently, the District has been authorized by the Orange County Local Agency Formation Commission to provide collection, transfer and disposal of solid waste; collection, treatment and disposal of sewage; fire protection; law enforcement; parks and recreation; security services; street improvement, maintenance and repair; water supply; and weed abatement services to the Emerald Bay community.

The District is governed by a five-member Board of Directors who are elected by the community residents through a general election. The District is authorized to provide a wide range of services, such as drainage improvements, recreation, maintenance, protection and other services typically provided by a city. The members of the Board of Directors of the District serve without compensation, benefits, or reimbursement of out-of-pocket expenses, and authorize policies, policy renewals, appropriations limit, annual budget and the budget amendments.

Note 2 - Summary of Significant Accounting Policies**A. Basis of Presentation and Measurement Focus**

The District's basic financial statements are prepared in conformity with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard-setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States. The basic financial statements of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide financial statements display information about the District as a whole. These statements include a single column for the governmental activities of the primary government. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Government-wide financial statements are presented using the economic resources measurement focus and the full accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the full accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred. As a result, amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the District are reported as a reduction of the related liability, rather than as an expenditure.

The District's governmental fund statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balance. In the fund financial statements, governmental funds are accounted for on a spending or "current financial resources" measurement focus and modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund and is currently the only fund of the District.

B. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

Highly liquid money market investments are stated at amortized cost. All other investments are reported at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The District applies fair value to investments, and disclosures related to the fair value hierarchy. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure fair value: Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

C. Capital Assets

Capital assets, which include infrastructure and equipment, are reported in the governmental activities column in the government-wide financial statements. Assets are recorded at historical cost, or estimated historical cost, if purchased or constructed or acquired through capital leases. Donated assets are valued at acquisition value at the date of donation. 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. The District utilizes a capitalization threshold of \$5,000.

Depreciation is provided using the straight-line method over the estimated useful lives of the asset as follows:

	<u>Years</u>
Infrastructure	10 - 30
Equipment	3 - 5

The governmental fund financial statements do not present capital assets. Instead, capital asset purchases are reported as capital outlay expenditures. As such, capital assets are shown as a reconciling item in the reconciliation of the governmental fund balance sheet to the statement of net position.

D. Property Taxes

Secured property taxes attach as an enforceable lien on real property as of January 1 of each year. Property taxes are levied by the County on July 1. The first installment of taxes is due on November 1 and becomes delinquent on December 10. The second installment of taxes is due February 1 and becomes delinquent on April 10. The County is permitted by State law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the assessed values no more than 2% per year.

District property taxes are recognized when levied, to the extent that they result in current receivables and are collected within an availability period of 60 days after year end. The District participates in the County of Orange Teeter Plan guaranteed payments. The County of Orange collects an administration fee from the District for its services. The District receives a percentage of the basic 1% ad valorem tax rate allowed on property within the Emerald Bay Service District. Property taxes are remitted to the District from the County of Orange at various times throughout the year. Property taxes are recognized as revenue in the General Fund in the year for which they are levied, in accordance with the modified accrual basis of accounting.

Property tax accounted for approximately 98.1% of revenues for the year ended June 30, 2021.

E. Fund Equity

Fund balances are reported in the fund financial statements in the following classifications:

- **Nonspendable** - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- **Restricted** - includes amounts from resources that constraints placed on the use of them are either (a) externally imposed by creditors (i.e., debt covenants) grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- **Committed** - includes amounts that can only be used for the specific purposes determined by a formal action of the District's highest level of decision-making authority, the District's Board of Directors (Board). Commitments may be changed or lifted only by the Board taking the same formal action that imposed the constraint originally (for example: resolution).
- **Assigned** - comprises amounts intended to be used by the Board for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the Board or (b) a body (for example: a budget or finance committee) or official to which the Board has delegated the authority to assign amounts to be used for specific purposes. The District has delegated this authority to the General Manager.
- **Unassigned** - is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

The District does not currently have any restricted or committed fund balances. In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned or unassigned.

On June 22, 2017, the District's Board also adopted a reserve policy with the following requirements:

- Operating reserves with a minimum amount of six months of operating expenses to a maximum of eight months of operating expenses – these funds can be used to meet operational cash flow requirements consistent with the District's annual budget. As described above, budgeted operating expenditures for FY 2021-22 totaled \$2,241,512 including budgeted debt service payments. As such, six to eight months would represent between \$1,120,756 and \$1,494,341.
- Capital reserves may be authorized through the budget process by the Board. Capital reserves may be used for unplanned or unbudgeted capital replacement, when procured in accordance with District's purchasing policy. For the year ended June 30, 2021, the District has assigned \$1,635,367 for Future Capital Improvements.

- Emergency/Contingency reserves may be used in the event of a natural disaster, economic downturn, or any other event that the Board deems to be a qualifying situation in which the use of emergency or contingency reserves is necessary. As of June 30, 2021, the Board has established a balance of \$250,000 for the Contingency Reserve, which is reported as part of unassigned fund balance.

As of June 30, 2021, the unassigned fund balance totaled \$1,370,317, which includes the Emergency/Contingency reserve and \$1,120,317 toward the minimum fund balance/operating reserves described above.

F. Classification of Net Position

On the statement of net position, net position is classified into two components which are defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Unrestricted net position - This component of net position represents the residual net position that does not meet the definition of the categories above, and the net position available to the District.

G. Long-term Liabilities

Long-term debt and other financed obligations are reported as liabilities in the government-wide financial statements. The governmental fund financial statements do not present long-term debt and other financed obligations. Principal payments and reductions in obligations are reported as debt service expenditures. As such, long-term debt and other financed obligations are shown as reconciling items in the Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position.

H. New GASB Pronouncements

Effective in the Current Year

GASB Statement No. 84 – In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for reporting periods beginning after December 15, 2019. The District has determined the implementation of this standard is immaterial to the District's financial statements.

Effective in Future Years

GASB Statement No. 87 – 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; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments. This Statement is effective for reporting periods beginning after June 15, 2021. The District has not determined the effect of this Statement.

GASB Statement No. 89 – In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (a) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement is effective for reporting periods beginning after December 15, 2020. The District has not determined the effect of this Statement.

GASB Statement No. 91 – In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issues and eliminate diversity in practice. The Statement is effective for reporting periods beginning after December 15, 2021. The District has not determined the effect of this Statement.

GASB Statement No. 92 – In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting to improve the consistency of authoritative literature by addressing practices issues that have been identified during implementation and application of certain GASB Statements. The Statement is effective for reporting periods beginning after June 15, 2021. The District has not determined the effect of this Statement.

GASB Statement No. 93 – In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR. The Statement is effective for reporting periods beginning after June 15, 2021. The District has not determined the effect of this Statement.

GASB Statement No. 94 – In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The Statement is effective for reporting periods beginning after June 15, 2022. The District has not determined the effect of this Statement.

GASB Statement No. 96 – In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The Statement is effective for reporting periods beginning after June 15, 2022. The District has not determined the effect of this Statement.

GASB Statement No. 97 – In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting For Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statement No.14 and No.84 and A Supersession of GASB Statement No.32*. The objective of this Statement is (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Statement is effective for reporting periods beginning after June 15, 2021. Certain provisions were effective for the year ended June 30, 2021 but had an immaterial impact on the District. The District has not determined the future effect of this Statement.

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain balances, and the related reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Note 3 - Cash and Investments

Cash and investments at fair value at June 30, 2021, consist of the following:

Deposits with financial institutions	
Balance per bank	\$ 65,649
less: reconciling items	(1,750)
	<u>63,899</u>
Balance per books	63,899
	<u>3,149,086</u>
Local Agency Investment Fund	3,149,086
	<u>3,149,086</u>
Total cash and investments	<u>\$ 3,212,985</u>

Cash in Bank

The carrying amount of the District's deposits with financial institutions is covered by Federal depository insurance up to \$250,000.

Local Agency Investment Fund

The District is a voluntary participant in Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the State and invests the cash. The fair value of the District's investment in this pool, which approximates cost, is not reported in the accompanying financial statements based upon the District's 24-hour liquidity value. The fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio) is disclosed in the accompanying notes to the financial statements. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis and reported as cash equivalents in the statement of net position. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations.

The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. The value of the LAIF deposits as of June 30, 2021, was \$3,149,086 and had a weighted average maturity of 291 days. LAIF is not rated as to credit risk by a nationally recognized statistical rating organization.

Authorized Investments:

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk and concentration of credit risk.

Investment Type Authorized by State Law	Authorized By Investment Policy	*Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment In One Issue
U.S. Treasury Obligations	Yes	6 years**	None	None
FDIC Insured Certificates of Deposit	Yes	5 years	75%	20%
Money Market Mutual Funds	Yes	N/A	20%	10%
Local Agency Investment Fund (LAIF)	Yes	N/A	None	\$ 75,000,000

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

**Government Code restricts investment maturities to 5 years unless authorized by the Board.

Disclosures Relating to Fair Value Measurements:

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, including matrix pricing models; Level 3 inputs are significant unobservable inputs.

Deposits and withdrawals to and from LAIF are made on the basis of \$1 and not at fair value. Accordingly, the District's investment in LAIF of \$3,149,086 at June 30, 2021 is measured based on uncategorized inputs not defined as level 1, level 2, or level 3.

Note 4 - Due to Emerald Bay Community Association

The Board of Directors of the District entered into a Management Services Agreement with the Emerald Bay Community Association (EBCA), a legally separate but geographically identical entity. The term of the agreement extends to June 30, 2024. Under the agreement, the District pays for management services. Additionally, on May 20, 2020, an amendment to the agreement was made to add that the District will reimburse EBCA up to \$35,000 for COVID-19 related expenses to help monitor social distancing. In FY 2020-21, the management service expense was \$289,821, which included office rent, administrative expenses, lease of EBCA property upon which the District facilities are located, plus specific percentages of designated employees of EBCA. As of June 30, 2021, there was balance of \$69,524 due to EBCA for services rendered during FY 2020-21 under this agreement.

The District also expensed \$577,287 to EBCA during the year for the District's portion of sewer pipeline and storm drain cleaning costs, capital lease, landscaping maintenance, and various other outside services. Also, see Note 6 for capital lease held with EBCA.

Note 5 - Capital Assets

During the year ended June 30, 2021, the District's capital assets consisted of following:

	<u>July 01, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2021</u>
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 49,728	\$ -	\$ 49,728
Capital assets, being depreciated:				
Water infrastructure	1,875,495	6,122	-	1,881,617
Sewer infrastructure and capacity rights	4,291,085	833,058	-	5,124,143
General infrastructure	3,687,022	36,072	-	3,723,094
Main gate	8,489,282	-	-	8,489,282
Equipment	222,857	-	-	222,857
Total capital assets, being depreciated	<u>18,565,741</u>	<u>875,252</u>	<u>-</u>	<u>19,440,993</u>
Less accumulated depreciation for Capital assets being depreciated	<u>(4,363,182)</u>	<u>(799,234)</u>	<u>-</u>	<u>(5,162,416)</u>
Total capital assets, net	<u>\$ 14,202,559</u>	<u>\$ 76,018</u>	<u>\$ -</u>	<u>\$ 14,328,305</u>

Depreciation expense of \$500,214 was allocated to general government and \$299,020 was charged to the public services water and sewer services for the year ended June 30, 2021 on the Statement of Activities.

During the year, the District received infrastructure assets with an acquisition value of \$500,000. These assets were contributed to the District as part of a settlement agreement and are reflected as capital assets of the District.

Note 6 - Long Term Liabilities

The following is a summary of long-term liabilities of the District for the year ended June 30, 2021:

	<u>Balance July 01, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2021</u>	<u>Classification</u>	
					<u>Due Within One Year</u>	<u>Due More Than One Year</u>
Notes from direct borrowings and direct placements:						
Installment Sales Agreement	\$ 5,670,417	\$ 5,554,521	\$ (5,670,417)	\$ 5,554,521	\$ 138,903	\$ 5,415,618
Capital lease	52,260	-	(13,535)	38,725	14,514	24,211
Total long term liabilities	<u>\$ 5,722,677</u>	<u>\$ 5,554,521</u>	<u>\$ (5,683,952)</u>	<u>\$ 5,593,246</u>	<u>\$ 153,417</u>	<u>\$ 5,439,829</u>

Direct Borrowings and Direct Placements - Installment Sales Agreement

In April 2015, the District entered into an Installment Sale Agreement with Municipal Finance Corporation for \$7,000,000 for the purpose of financing the Main Gate Safety Improvement Project and other storm drain, sewer and water infrastructure improvements, collectively referred to as the 2015 Project. Interest accrued at 3.45% per year. Combined interest and principal payments totaled \$487,422 due April 7 and October 7 of each year through April 7, 2035.

On October 7, 2020, the District refinanced the 2015 Installment Sales Agreement between the District and Municipal Finance Corporation. The interest rate was reduced from 3.45% to 2.40%. Proceeds from the agreement were used to refund \$5,524,521 remaining outstanding from the 2015 agreement. The District will make interest only payments on April 7, 2021 and October 7, 2021 in the amount of \$66,654 each and a reduced payment of \$205,557 on April 7, 2022. The remaining payments will be \$243,711 through April 7, 2035. The refunding resulted in a cash flow savings of \$392,267 over the life of the agreement, resulting in an economic gain of \$384,499.

For the year ended June 30, 2021, the District paid \$145,896 in principal (prior to the refunding), and \$164,469 in interest.

The District may prepay in whole or in part on any date on or after October 7, 2027 and before October 7, 2030 at a prepayment price equal to 101% of the principal amount of the Installment Payments plus accrued interest, or on any date on or after October 7, 2030 at a prepayment price equal to the principal amount of Installment Payments plus accrued interest.

All revenues of the District, including property tax revenues, are pledged to the repayment of the notes. The annual debt service requirements on the agreement is as follows:

Fiscal Year Ended	Principal	Interest	Total
June 30, 2022	\$ 138,903	\$ 133,309	\$ 272,212
June 30, 2023	359,592	127,830	487,422
June 30, 2024	368,274	119,148	487,422
June 30, 2025	377,165	110,257	487,422
June 30, 2026	386,271	101,150	487,421
June 30, 2027 - June 30, 2031	2,075,835	361,274	2,437,109
June 30, 2032 - June 30, 2035	1,848,481	101,207	1,949,688
	\$ 5,554,521	\$ 1,054,175	\$ 6,608,696

Capital Lease

On March 11, 2020, the District entered into a lease agreement with Emerald Bay Community Association for use of a tractor. The lease is for the total amount of \$58,682 of 48 monthly payments of \$1,397 with an interest rate of 7%. The final payment of \$1,405 is due on December 1, 2023. The lease is for the total useful life of the tractor.

The assets acquired through the capital lease are as follows:

Equipment	\$ 58,682
Less: accumulated depreciation	<u>(22,006)</u>
	<u>\$ 36,676</u>

Future capital lease payment requirements are as follows:

Years Ending June 30,	Total
2022	\$ 16,765
2023	16,768
2024	<u>8,828</u>
Total inimum lease payments	42,361
Less portion representing interest	<u>(3,636)</u>
Present value of minimum lease payments	<u>\$ 38,725</u>

Note 7 - Insurance Program

The District is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disaster. The District is a member of the Special District Risk Management Authority (SDRMA). The SDRMA is a risk-pooling self-insurance authority, created under the provisions of the California Government Code Sections 6500 et. seq. The purpose of the SDRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. A copy of the SDRMA audit report may be obtained from SDRMA at 1112 I Street, Suite 300, Sacramento, California 95814.

Member agencies pay an annual premium to the SDRMA and are determined annually by the governing board. The District's policy limits for workers' compensation insurance is \$5,000,000 per occurrence, with no deductible. The District's policy limits for property and liability insurance are \$800,000,000 per covered loss for property damage, \$100,000,000 per covered loss for boiler and machinery, \$2,000,000 per covered loss for pollution, and \$10,000,000 per occurrence for general liability, which includes automobile, errors and omissions of officers.

The following is a summary of the insurance policies carried by the District for the fiscal year ended June 30, 2021:

Comprehensive Business Policy - SDRMA	
General property	\$ 800,000,000
Boiler and machinery	100,000,000
Flood (excluding A and V)	800,000,000
Flood (A and V)	800,000,000
Pollution	2,000,000
Cyber	2,000,000
Catastrophic Loss	800,000,000
Mobile Equipment - SDRMA	
Mobile/Contractors equipment	800,000,000
General Liability - SDRMA	
Bodily injury and property damage	10,000,000
Property Damage	10,000,000
Public officials personal	500,000
Employment benefits	10,000,000
Employee/Public officials E & O	10,000,000
Employment practices liability	10,000,000
Employee/Public officials dishonesty	1,000,000
Workers' Compensation Program - SDRMA	
Employers liability	5,000,000
Workers' Compensation	Statutory
Auto Liability - SDRMA	
Auto bodily injury	10,000,000
Auto property damage	10,000,000
Uninsured/underinsured motorists	1,000,000
Auto Physical Damage	
Auto PD - comp	100,000
Auto PD - collision	100,000
High dollar vehicles	800,000,000
Outside Policies	
Excess liability limits	15,000,000

Settled claims have not exceeded any of the District's coverage amounts in the last three fiscal years.

Note 8 - Joint Powers Authorities (JPA)

South Orange County Wastewater Authority (a California Joint Powers Authority) (SOCWA)

The District is one of ten member agencies that participate in SOCWA. SOCWA treats, beneficially reuses, and disposes of wastewater in South Orange County. SOCWA operates three wastewater treatment plants (WWTP) and two ocean outfalls in the region. SOCWA has ten member agencies, including three cities and seven water districts. A Board of Directors consisting of representatives from member agencies governs SOCWA. The Board of Directors governs the operations of SOCWA, including selection of management and approval of the annual budget. SOCWA has Project Committees that member agencies participate in financially at various levels, depending on their capacity rights. Each WWTP is a project, as well as various other physical facilities, such as outfall pipelines.

The District's overall participation level is approximating 0.4% of SOCWA. The District deposits money with SOCWA to cover its share of operation and capital in the project committees in which the District participates. At fiscal year-end SOCWA analyzes its actual costs and refunds or collects additional money from its members as appropriate. Construction deposits made to SOCWA for capital projects are recorded as capital assets. The District paid \$112,830 for operating and maintenance, and \$163,224 for capital projects to SOCWA for the year ended June 30, 2021.

To obtain complete financial information from SOCWA please contact SOCWA's Controller at 34156 Del Obispo Street, Dana Point, California, 92629.

Note 9 - Fire Station Lease

The District has provided the Orange County Fire Authority (OCFA) a rent-free lease of the fire station located within the District's boundaries. The lease has been provided to the OCFA under a three-party mutual lease agreement with the OCFA and the EBCA dated March 28, 2013. The original lease was for a term of 5 years. At the expiration of the initial term, and the subsequent 1-year lease extension, the District entered into a new 5-year lease, with 10 additional renewal terms of 5 years each, with the OCFA and the EBCA. This new lease was dated March 20, 2019 and extends through March 20, 2074.

Note 10 - Affiliated Organizations

As described in Note 1, the District's purpose includes providing fresh water supply and fire protection to the residents of the District. Currently, the Laguna Beach County Water District (LBCWD) provides the District's residents with its fresh water supply on behalf of the District. The infrastructure for the fresh water supply is under the District's administration; however, the charges for the supplied fresh water to the residents billed by the LBCWD directly.



Required Supplementary Information
June 30, 2021

Emerald Bay Service District

Emerald Bay Service District

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund For the year ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes	\$ 2,718,961	\$ 2,825,585	\$ 2,842,302	\$ 16,717
Investment income	25,000	17,769	1,549	(16,220)
Other	19,039	20,323	53,586	33,263
Total revenues	<u>2,763,000</u>	<u>2,863,677</u>	<u>2,897,437</u>	<u>33,760</u>
Expenditures				
Current:				
General government	728,000	782,082	721,293	60,789
Public services water and sewer services	366,000	348,808	311,163	37,645
Recreation and safety	440,300	516,100	495,942	20,158
Capital outlay	842,000	569,000	424,980	144,020
Debt service				
Principal retirement	-	-	159,431	(159,431)
Interest and fiscal charges	487,422	310,364	167,698	142,666
Total expenditures	<u>2,863,722</u>	<u>2,526,354</u>	<u>2,280,507</u>	<u>245,847</u>
Other financing sources (uses)				
Proceeds (Payments) on refinance - Installment Sales Agreement	-	-	30,000	30,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>30,000</u>	<u>30,000</u>
Net Change In Fund Balance	<u>(100,722)</u>	<u>337,323</u>	<u>646,930</u>	<u>309,607</u>
Fund Balance, Beginning	<u>2,511,751</u>	<u>2,511,751</u>	<u>2,511,751</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 2,411,029</u>	<u>\$ 2,849,074</u>	<u>\$ 3,158,681</u>	<u>\$ 309,607</u>

Note 1 - Budgets and Budgetary Accounting

The District's budget for the General Fund is prepared annually and approved and adopted in accordance with the provisions of the Board of Directors. Any deficiency of budgeted revenues compared to budgeted expenditures is financed from beginning unrestricted fund balance.

Unexpended and unencumbered appropriations of the governmental fund automatically lapse at the end of the fiscal year for noncapital projects. The level at which expenditures may not legally exceed appropriations is the fund level.



Other Information
June 30, 2021

Emerald Bay Service District

Emerald Bay Service District
 General Fund - Functional Expenditures Budgetary Comparison Schedule
 For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
General Government				
Wages and salaries	\$ 95,000	\$ 101,500	\$ 101,500	\$ -
Payroll taxes	8,500	8,500	8,120	380
Workers compensation insurance	2,000	1,370	1,194	176
Employee benefits	20,000	18,000	15,923	2,077
Personnel administrative	3,000	2,000	1,708	292
Property tax collection fees	6,000	7,000	7,039	(39)
Tax administration charge	16,000	16,000	11,747	4,253
Administration miscellaneous expense	4,000	9,000	7,222	1,778
Computer services	3,000	2,500	2,553	(53)
Insurance	84,000	84,000	83,752	248
Telephone	2,000	2,500	2,374	126
Memberships and conferences	11,000	11,000	8,445	2,555
Annual regulatory permits	9,000	9,000	6,616	2,384
Management services	310,000	310,000	289,821	20,179
LAFCO contribution/ expenses	3,000	2,212	2,212	-
Vehicle lease	-	2,000	-	2,000
District website	3,000	1,000	1,444	(444)
Accounting fees	40,000	40,000	34,094	5,906
Audit	16,500	16,500	16,500	-
Legal fees	70,000	120,000	99,029	20,971
Professional services - engineering	12,000	15,000	16,200	(1,200)
Engineer surveys and expenses	1,000	-	-	-
Plan check fees	9,000	3,000	3,800	(800)
	<u>728,000</u>	<u>782,082</u>	<u>721,293</u>	<u>60,789</u>
Public Services Water and Sewer Services				
Sewage treatment services	146,000	146,000	112,830	33,170
North coast interceptor	46,000	30,000	15,584	14,416
Maintenance equipment	13,000	13,000	1,192	11,808
Maintenance vehicle fuel and repairs	13,000	13,000	5,153	7,847
Sewer lift station - monthly inspections	6,000	4,500	2,607	1,893
Sewer lift station - electricity	13,000	13,000	10,487	2,513
Sewer list station - water	2,000	2,000	1,143	857
Supplies and chemicals	2,000	2,000	2,507	(507)
Sewer repair and maintenance	56,000	56,000	91,298	(35,298)
Sewer pipeline system cleaning	67,000	67,000	67,054	(54)
Water conservation	1,000	1,000	-	1,000
Misc. water expense	1,000	1,308	1,308	-
	<u>366,000</u>	<u>348,808</u>	<u>311,163</u>	<u>37,645</u>
Total public services water and sewer services				(continued)

Emerald Bay Service District
 General Fund - Functional Expenditures Budgetary Comparison Schedule - Continued
 For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Recreation and Safety				
Beach lifeguards	\$ 151,000	\$ 151,000	\$ 153,648	\$ (2,648)
Lifeguards - pool	93,000	113,000	110,747	2,253
Storm drain cleaning	51,000	40,000	49,362	(9,362)
Emergency storm contingency	15,000	15,000	415	14,585
Storm drain maint/repair	5,000	5,000	4,810	190
Equipment lease	16,800	26,100	-	26,100
Street sweeping	-	-	9,152	(9,152)
Drills and training	1,000	1,000	-	1,000
EOC supplies/miscellaneous	5,000	5,000	7,128	(2,128)
CERT communications	9,000	9,000	2,080	6,920
Medical	6,000	6,000	-	6,000
Fuel modification/Weed abatement	40,000	100,000	99,228	772
Landscaping materials - entrance	20,000	20,000	34,249	(14,249)
Landscaping water - entrance	7,500	9,000	8,128	872
Landscape maintenance - contract	20,000	16,000	16,995	(995)
Total recreation and safety	<u>440,300</u>	<u>516,100</u>	<u>495,942</u>	<u>20,158</u>
Debt service	487,422	310,364	327,129	(16,765)
Capital outlay	842,000	569,000	424,980	144,020
Total expenditures	<u>\$ 2,863,722</u>	<u>\$ 2,526,354</u>	<u>\$ 2,280,507</u>	<u>\$ 245,847</u>



Independent Auditor’s 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

The Board of Directors
Emerald Bay Service District

We have audited, 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, the financial statements of the governmental activities and the General Fund of the Emerald Bay Service District (District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated December 16, 2021.

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) as a basis for designing 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 entity’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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Laguna Hills, California
December 16, 2021