



Financial Statements
June 30, 2020

Emerald Bay Service District

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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, 2020, 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, 2020, 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 on pages 3-8 and budgetary comparison information on pages 30-31 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 on pages 32-33 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 18, 2020, 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 18, 2020

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, 2020. 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 29 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 sphere of influence for the District 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 \$10,946,530 (net position). Of this amount \$2,466,648 (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 \$432,514. This increase is attributable to additional investment in the District's infrastructure, as well as the reduction on bond debt of \$284,412.
- Cash and investments available to the District decreased by \$31,336 primarily as the result of investment into the District's infrastructure.

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 30 to 31.

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 29 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 \$10,946,530 at the close of the most recent fiscal year. Approximately 77.5% 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, 2020	June 30, 2019	Change
Assets			
Current and other assets	\$ 2,642,740	\$ 2,671,696	\$ (28,956)
Capital assets	14,202,559	13,965,487	237,072
Total Assets	<u>16,845,299</u>	<u>16,637,183</u>	<u>208,116</u>
Current Liabilities	497,471	452,750	44,721
Noncurrent liabilities	5,453,558	5,670,417	(216,859)
Total Liabilities	<u>5,951,029</u>	<u>6,123,167</u>	<u>(172,138)</u>
Net Position			
Invested in capital assets	8,427,622	8,010,658	416,964
Unrestricted	2,518,908	2,503,358	15,550
Total Net Position	<u>\$ 10,946,530</u>	<u>\$ 10,514,016</u>	<u>\$ 432,514</u>

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, 2020</u>	<u>June 30, 2019</u>	<u>Change</u>
General Revenues			
Property tax	\$ 2,652,590	\$ 2,476,611	\$ 175,979
Investment income	59,417	48,221	11,196
Other	58,843	240,724	(181,881)
	<u>2,770,850</u>	<u>2,765,556</u>	<u>5,294</u>
Total general revenues			
Expenses			
General government	1,140,776	1,119,209	21,567
Public services	566,840	529,336	37,504
Recreation and safety	429,974	395,222	34,752
Interest and fiscal charges	200,746	209,791	(9,045)
	<u>2,338,336</u>	<u>2,253,558</u>	<u>84,778</u>
Total Expenses			
Change in net position	432,514	511,998	(79,484)
Net position - beginning of year	<u>10,514,016</u>	<u>10,002,018</u>	<u>511,998</u>
Net position - end of year	<u>\$ 10,946,530</u>	<u>\$ 10,514,016</u>	<u>\$ 432,514</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, 2020, the District's governmental fund reported an ending fund balance of \$2,511,751, a decrease of \$38,973 as compared to the prior fiscal year. Unassigned fund balance of \$1,243,711 is available for spending at the District's discretion. The Board has assigned \$1,184,288 for future capital improvement projects.

The fund balance of the District's general fund decreased by \$38,973 during the current fiscal year. This increase can be compared to an increase of \$333,575 in the prior fiscal year. Key factors in the changes are as follows:

- Capital expenditures for infrastructure and equipment increased from \$614,192 in the prior fiscal year to \$986,978. The Board of Directors of the Emerald Bay Service District approved an additional Capital Project at the September 26, 2019 Board Meeting. The project consisted of improvement to storm drains and gutters in Area 2 and Area 9 of the Emerald Bay Service District. Additionally, in the current fiscal year and the District entered into a Capital Lease Agreement of \$58,682.
- Interest earnings and change in fair value of investments increased by \$11,196. This increase was primarily the result of the year-end adjustment to fair market value in the State of California Local Agency Investment Fund.
- Cost reimbursements included in other income decreased by \$181,881 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 June 2019. Subsequently, the Board approved budget adjustments on March 11, 2020 to more accurately project the actual revenue. Actual revenues exceeded the Final Budget by \$62,968 or 2.3%.
- General government expenditures were \$659,290 or 6.9% less than the final budget; public services, water and sewer expenditures were \$298,420 or 21.8% less than the final budget, and recreation and safety expenditures were \$436,396 or less than 1% of the final budget. In summary, the total operating expenditures were under budget by \$14,091 or 0.5% below the total final approved budget.
- Capital expenditures for infrastructure and equipment were \$986,978 or \$117,978 more than the final budget. Excess appropriations were not carried forward during the budget process. Instead each project was evaluated and if any funds were needed to complete current or start new projects the funding was then reappropriated upon approval of the fiscal year 2020-21 budget. The Board approved additional projects throughout the fiscal year.

Capital Asset and Debt Administration

Capital Assets - The District spent \$986,978 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 \$5,670,417 at June 30, 2020. Additional information can be found in Note 6 starting on page 24 of the notes to the financial statements.

The Mihaylo College of Business and Economics at the California State University Fullerton reported that Orange County Business Leaders are optimistic predicting the overall business activity in Orange County will stay the same or improve in the 4th quarter of 2020.

Housing prices had seen small increases in 2019 and for the first quarter of 2020, however, housing prices for a median single-family home in Orange County are expected to increase by 6%, with a more moderate increase of 3.2% in 2021. The District's property tax revenue is expected to see continued increases as homes continue to be sold, removed and replaced within the Emerald Bay Community.

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 2020-2021 annual budget. Increases in estimated property taxes are estimated to be 4% 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, 2020

	Governmental Activities
Assets	
Cash and investments	\$ 2,495,632
Taxes receivable	54,377
Interest receivable	8,979
Other assets	83,752
Capital assets, net of accumulated depreciation	14,202,559
Total assets	16,845,299
 Liabilities	
Current Liabilities	
Accounts payable and accrued expenses	66,306
Accrued interest payable	45,103
Due to Emerald Bay Community Association	64,683
Current portion of long-term capital lease	13,535
Current portion of long-term liabilities	307,844
Total current liabilities	497,471
 Non-Current Liabilities	
Non-current portion of long-term capital lease	38,725
Non-current portion of long-term liabilities	5,414,833
Total non-current liabilities	5,453,558
Total liabilities	5,951,029
 Net Position	
Net investment in capital assets	8,427,622
Unrestricted	2,518,908
Total net position	\$ 10,894,270

Emerald Bay Service District
Statement of Activities
For the Year Ended June 30, 2020

Functions/Programs	Expenses	Net (Expenses) and Changes in Net Position
Governmental activities		
General government	\$ 1,140,776	\$ (1,140,776)
Public services water and sewer services	566,840	(566,840)
Recreation and safety	429,974	(429,974)
Interest and fiscal charges	200,746	(200,746)
Total governmental activities	\$ 2,338,336	\$ (2,338,336)
General revenues		
Taxes		2,652,590
Investment income		59,417
Miscellaneous		58,843
Total general revenues		2,770,850
Change in net position		432,514
Net position - beginning of year		10,514,016
Net position - end of year		\$ 10,946,530

Emerald Bay Service District
Balance Sheet – Governmental Fund
June 30, 2020

Assets	<u>General Fund</u>
Cash and investments	\$ 2,495,632
Taxes receivable	54,377
Interest receivable	8,979
Other assets	<u>83,752</u>
Total assets	<u><u>\$ 2,642,740</u></u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable and accrued expenses	\$ 66,306
Due to Emerald Bay Community Association	<u>64,683</u>
Total liabilities	<u>130,989</u>
Fund balance	
Nonspendable	83,752
Assigned - future capital improvements	1,184,288
Unassigned	<u>1,243,711</u>
Total fund balance	<u>2,511,751</u>
Total liabilities and fund balance	<u><u>\$ 2,642,740</u></u>

Emerald Bay Service District
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position
June 30, 2020

Fund balance of governmental fund	\$ 2,511,751
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	14,202,559
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	
Bonds payable	(5,722,677)
Capital lease	(52,260)
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>(45,103)</u>
Net position of governmental activities	<u><u>\$ 10,894,270</u></u>

Emerald Bay Service District
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund
For the Year Ended June 30, 2020

	<u>General Fund</u>
Revenues	
Taxes	\$ 2,652,590
Investment income	59,417
Other	58,843
Total revenues	2,770,850
Expenditures	
Current	
General government	659,290
Public services water and sewer services	298,420
Recreation and safety	436,396
Capital outlay	986,978
Debt service	
Principal retirement	284,412
Interest and fiscal charges	203,009
Total expenditures	2,868,505
Deficiency of revenues under expenditures	(97,655)
Other financing sources	
Capital leases acquired	58,682
Net change in fund balance	(38,973)
Fund balance, beginning	2,550,724
Fund balance, ending	\$ 2,511,751

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, 2020

Net change in fund balance - governmental fund \$ (38,973)

Amounts reported for governmental activities in the statement of activities are different because:

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.

Capital outlay	986,978
Depreciation expense	(749,906)

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:

Bonds payable	290,834
Capital lease acquisition	(58,682)
Capital lease repayment	6,422

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.

2,263

Change in net position of governmental activities	<u><u>\$ 438,936</u></u>
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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:

	Years
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 95.3% of revenues for the year ended June 30, 2020.

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 2020-21 totaled \$2,021,722, including budgeted debt service payments. As such, six to eight months would represent between \$1,010,861 and \$1,347,815.

- 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, 2020, the District has assigned \$1,184,288 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, 2020, 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, 2020, the unassigned fund balance totaled \$1,243,711, which includes the Emergency/Contingency reserve and 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. 95— In May 2020, the Government Account Standards Board (GASB) issued Statement No. 95, *Postponement of the Effective Dates of Certain Authority Guidance*. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The requirements of this Statement are effective immediately as they delayed the effective dates of several GASB Statements. The effective dates listed in the Future GASB Pronouncement section have been updated to reflect the postponed effective dates.

Effective in Future Years

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 not determined the effect of this Statement.

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. 90 – In September 2018, the GASB issued Statement No. 90, *Majority Equity Interests, An Amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement is effective for reporting periods beginning after December 15, 2019. 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 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. The District has not determined the 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, 2020, consist of the following:

Deposits with financial institutions	
Balance per bank	\$ 81,465
less: reconciling items	<u>(9,112)</u>
Balance per books	<u>72,353</u>
Local Agency Investment Fund	<u>2,423,279</u>
Total Cash and Investments	<u><u>\$ 2,495,632</u></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, 2020, was \$2,423,279 and had a weighted average maturity of 191 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 \$2,423,279 at June 30, 2020 is measured based on uncategorized inputs not defined as level 1, level 2, or level 3.

Note 4 - Due to Emerald Bay Community Association and Other Related Party Transactions

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, 2021. 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 2019-20, the management service expense was \$278,317, 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, 2020, there was balance of \$64,683 due to EBCA for services rendered during FY 2019-20 under this agreement.

The District also expensed \$462,059 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, 2020, the District's capital assets consisted of following:

	June 30, 2019	Additions	Deletions	June 30, 2020
Capital assets, being depreciated				
Water infrastructure	\$ 1,820,065	\$ 55,430	\$ -	\$ 1,875,495
Sewer infrastructure and capacity rights	3,923,188	367,897	-	4,291,085
General infrastructure	3,189,421	497,601	-	3,687,022
Main Gate	8,489,282	-	-	8,489,282
Equipment	156,807	66,050	-	222,857
Total capital assets, being depreciated	<u>17,578,763</u>	<u>986,978</u>	<u>-</u>	<u>18,565,741</u>
Less accumulated depreciation for Capital assets being depreciated	<u>(3,613,276)</u>	<u>(749,906)</u>	<u>-</u>	<u>(4,363,182)</u>
Total capital assets, net	<u>\$ 13,965,487</u>	<u>\$ 237,072</u>	<u>\$ -</u>	<u>\$ 14,202,559</u>

Depreciation expense of \$488,821 was allocated to general government and \$261,085 was charged to the public services water and sewer services for the year ended June 30, 2020 on the Statement of Activities.

Note 6 - Long Term Liabilities

The following is a summary of long-term liabilities of the District for the year ended June 30, 2020:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020	Classification	
					Due Within One Year	Due More Than One Year
Bonds payable	5,954,829	-	(284,412)	5,670,417	294,309	5,376,108
Capital lease	-	58,682	(6,422)	52,260	13,535	38,725
Total	<u>\$ 5,954,829</u>	<u>\$ 58,682</u>	<u>\$ (290,834)</u>	<u>\$ 5,722,677</u>	<u>\$ 307,844</u>	<u>\$ 5,414,833</u>

Installment Sales Agreement – Bond Payable

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 accrues at 3.45% per year. Combined interest and principal payments total \$487,422 due April 7 and October 7 of each year through April 7, 2035. For the year ended June 30, 2020, the District paid \$284,412 in principal, and \$203,010 in interest.

The District may prepay in whole or in part on any date on or after April 7, 2020 and before April 7, 2025 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 April 7, 2025 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, 2021	\$ 294,309	\$ 193,113	\$ 487,422
June 30, 2022	304,550	182,871	487,421
June 30, 2023	315,148	172,274	487,422
June 30, 2024	326,114	161,307	487,421
June 30, 2025	337,462	149,959	487,421
June 30, 2026 - June 30, 2030	1,871,843	565,266	2,437,109
June 30, 2031 - June 30, 2035	2,220,991	216,119	2,437,110
	<u>\$ 5,670,417</u>	<u>\$ 1,640,909</u>	<u>\$ 7,311,326</u>

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>(7,335)</u>
	<u>\$ 51,347</u>

Future capital lease payment requirements are as follows:

Years Ending June 30,	Total
2021	\$ 16,765
2022	16,765
2023	16,768
2024	8,828
Total minimum lease payments	59,126
Less portion representing interest	(6,866)
Present value of minimum lease payments	\$ 52,260

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 \$1,000,000,000 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, 2020:

Comprehensive Business Policy - SDRMA	
General property	\$ 1,000,000,000
Boiler and machinery	100,000,000
Flood (excluding A and V)	1,000,000,000
Flood (A and V)	1,000,000,000
Pollution	2,000,000
Cyber	2,000,000
Mobile Equipment - SDRMA	
Mobile/Contractors equipment	1,000,000,000
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
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	1,000,000,000
Trailer	
Trailer	1,000,000
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, and there were no reductions in coverage from the previous fiscal year.

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 \$158,623 for operating and maintenance, and \$186,542 for capital projects to SOCWA for the year ended June 30, 2020.

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.

Note 11 - Subsequent Events

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%. 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 for an overall savings of \$392,266. The remaining bond payments will be \$243,711 through April 7, 2035.



Required Supplementary Information
June 30, 2020

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, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes	\$ 2,553,800	\$ 2,644,487	\$ 2,652,590	\$ 8,103
Investment income	40,000	40,000	59,417	19,417
Other	18,950	23,395	58,843	35,448
Total revenues	<u>2,612,750</u>	<u>2,707,882</u>	<u>2,770,850</u>	<u>62,968</u>
Expenditures				
Current:				
General government	714,000	708,033	659,290	48,743
Public services water and sewer services	372,000	381,500	298,420	83,080
Recreation and safety	388,500	436,641	436,396	245
Capital outlay	621,000	869,000	986,978	(117,978)
Debt service				
Principal retirement	284,412	284,412	284,412	-
Interest and fiscal charges	203,010	203,010	203,009	1
Total expenditures	<u>2,582,922</u>	<u>2,882,596</u>	<u>2,868,505</u>	<u>14,091</u>
Other financing sources				
Capital leases acquired	-	-	58,682	58,682
Total other financing sources	<u>-</u>	<u>-</u>	<u>58,682</u>	<u>58,682</u>
Net change in fund balance	<u>29,828</u>	<u>(174,714)</u>	<u>(38,973)</u>	<u>135,741</u>
Fund Balance, beginning	<u>2,550,724</u>	<u>2,550,724</u>	<u>2,550,724</u>	
Fund Balance, ending	<u>\$ 2,580,552</u>	<u>\$ 2,376,010</u>	<u>\$ 2,511,751</u>	<u>\$ 135,741</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, 2020

Emerald Bay Service District

Emerald Bay Service District
 General Fund - Functional Expenditures Budgetary Comparison Schedule
 For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
General government				
Staff salary	\$ 95,000	\$ 95,000	\$ 94,501	\$ 499
Payroll taxes	8,500	8,500	7,355	1,145
Workers compensation	2,000	2,000	1,438	562
Employee benefits	16,000	18,000	15,508	2,492
Personnel administration	4,000	3,000	1,618	1,382
Property tax collection fees	6,000	6,000	6,285	(285)
County of Orange - tax administration charge	16,000	16,000	10,225	5,775
Administration miscellaneous expense	5,000	3,000	1,885	1,115
Computer services	3,000	2,000	2,055	(55)
Insurance	55,000	55,000	54,006	994
Telephone	3,000	2,000	1,906	94
Memberships and contributions	9,000	10,000	10,679	(679)
Management services	300,000	300,000	278,317	21,683
LAFCO annual contribution	11,000	10,033	10,033	-
Lease vehicle/truck	3,000	-	262	(262)
District website	2,000	3,000	2,358	642
Accounting fees	40,000	40,000	40,861	(861)
Audit	16,500	16,500	10,500	6,000
Legal fees	92,000	92,000	86,576	5,424
Professional services - engineering	10,000	12,000	11,657	343
Engineer surveys and expenses	1,000	1,000	-	1,000
Annual regulatory permits	8,000	8,000	7,465	535
Plan check fees	8,000	5,000	3,800	1,200
Total general government	714,000	708,033	659,290	48,743
Public services water and sewer services				
Sewage treatment services	155,000	165,000	158,623	6,377
North coast interceptor	46,000	46,000	13,874	32,126
Maintenance equipment	13,000	13,000	1,159	11,841
Maintenance vehicle fuel and repairs	13,000	13,000	7,777	5,223
Sewer lift station - monthly inspections	6,000	6,000	3,823	2,177
Sewer lift station - electricity	13,000	13,000	10,001	2,999
Sewer lift station - water	2,000	1,500	801	699
Supplies and chemicals	2,000	2,000	1,053	947
Sewer repair and maintenance	55,000	55,000	36,774	18,226
Sewer pipeline system cleaning	65,000	65,000	64,042	958
Water conservation	1,000	1,000	-	1,000
Misc. water expense	1,000	1,000	493	507
Total public services water and sewer services	372,000	381,500	298,420	83,080

(continued)

Emerald Bay Service District
 General Fund - Functional Expenditures Budgetary Comparison Schedule - Continued
 For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Recreation and safety				
Beach lifeguards	134,000	134,000	198,236	(64,236)
Fireworks	37,500	39,551	39,551	-
Fireworks - barge	27,000	26,690	26,690	-
Fireworks - chase boat	2,000	2,000	2,000	-
Emergency storm contingency	15,000	15,000	709	14,291
Storm drain cleaning	55,000	55,000	52,777	2,223
Storm drain Maint/Repair	-	14,000	8,133	5,867
Equipment lease	14,000	8,400	8,382	18
Drills and training	1,000	1,000	160	840
EOC supplies/miscellaneous	5,000	5,000	11,804	(6,804)
CERT communications	13,000	13,000	2,080	10,920
Miscellaneous/CERT expense	6,000	6,000	-	6,000
Fuel modification/Weed abatement	36,000	74,000	42,722	31,278
Landscaping materials - entrance	15,000	15,000	17,622	(2,622)
Landscaping water - entrance	8,000	8,000	11,670	(3,670)
Landscape maintenance - contract	20,000	20,000	13,860	6,140
Total recreation and safety	<u>388,500</u>	<u>436,641</u>	<u>436,396</u>	<u>245</u>
Debt service	487,422	487,422	487,421	1
Capital outlay	<u>621,000</u>	<u>869,000</u>	<u>986,978</u>	<u>(117,978)</u>
Total expenditures	<u>\$ 2,582,922</u>	<u>\$ 2,882,596</u>	<u>\$ 2,868,505</u>	<u>\$ 14,091</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, 2020, 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 18, 2020.

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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, professional style.

Laguna Hills, California
December 18, 2020