



Financial Statements  
June 30, 2022

# 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 Audit of the Financial Statements

#### ***Opinions***

We have audited 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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund information of the District, as of June 30, 2022, 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.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Adoption of New Accounting Standard***

As discussed in Notes 2, 6, and 12 to the financial statements, the District has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2021, to restate beginning net position. Our opinions are not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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 is the responsibility of management and, 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***

Management is responsible for the other information included in the annual report. The other information comprises the functional expenditures budgetary comparison schedule for the General fund but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 20, 2022

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, 2022. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which can be found on pages 10 to 30 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 \$11,905,289 (net position). Of this amount \$2,763,290 (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 \$40,405. This increase is attributable to additional investment in the District's infrastructure, as well as the reduction on bond debt of \$138,903.
- Cash and investments available to the District decreased by \$332,367, this decrease was due to increased investment in capital assets of \$1,106,932 offset by increases in 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 10 and 11 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 12 to 15 of this report. The required supplementary information can be found on pages 31 to 32

**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 16 to 30 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 \$11,905,289 at the close of the most recent fiscal year. Approximately 76.8% 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, 2022	June 30, 2021	Change
Assets			
Current and other assets	\$ 2,991,729	\$ 2,642,740	\$ 348,989
Capital assets	14,974,777	14,202,559	772,218
Total assets	<u>17,966,506</u>	<u>16,845,299</u>	<u>1,121,207</u>
Current Liabilities	793,949	483,936	310,013
Noncurrent liabilities	5,267,268	5,414,833	(147,565)
Total liabilities	<u>6,061,217</u>	<u>5,898,769</u>	<u>162,448</u>
Net Position			
Net investment in capital assets	9,141,999	8,427,622	714,377
Unrestricted	2,763,290	2,518,908	244,382
Total net position	<u>\$ 11,905,289</u>	<u>\$ 10,946,530</u>	<u>\$ 958,759</u>

(Note – 2021 balances are not restated as described in Note 12 to the financial statements)

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, 2022</u>	<u>June 30, 2021</u>	<u>Change</u>
General Revenues			
Property tax	\$ 2,944,638	\$ 2,652,590	\$ 292,048
Investment income	(22,808)	59,417	(82,225)
Other	3,800	58,843	(55,043)
	<u>2,925,630</u>	<u>2,770,850</u>	<u>154,780</u>
Total general revenues			
Expenses			
General government	1,570,710	1,140,776	429,934
Public services	592,738	566,840	25,898
Recreation and safety	585,384	429,974	155,410
Interest and fiscal charges	136,393	200,746	(64,353)
	<u>2,885,225</u>	<u>2,338,336</u>	<u>546,889</u>
Total expenses			
Change in Net Position	40,405	432,514	(392,109)
Net Position - Beginning of Year	<u>11,864,884</u>	<u>10,514,016</u>	<u>1,350,868</u>
Net Position - End of Year	<u>\$ 11,905,289</u>	<u>\$ 10,946,530</u>	<u>\$ 958,759</u>

(Note – 2021 balances are not restated as described in Note 12 to the financial statements)

**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, 2022, the District's governmental fund reported an ending fund balance of \$2,794,605, a decrease of \$364,076 as compared to the prior fiscal year. Unassigned fund balance of \$2,313,645 is available for spending at the District's discretion. The Board has assigned \$439,233 for future capital improvement projects.

The fund balance of the District's general fund decreased by \$364,076 during the current fiscal year. This decrease can be compared to an increase of \$916,305 in the prior fiscal year. Key factors in the changes are as follows:

- Capital expenditures for infrastructure and equipment increased from \$428,207 in the prior fiscal year to \$1,106,932. 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.

### **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 3.5% increase in property taxes when developing and approving the original budget approved in June 2021. Subsequently, the Board approved budget adjustments on February 16, 2022 to more accurately project the actual revenues and expenses. Actual revenues were under the Final Budget by \$34,004 or 1.1%.
- General government expenditures were \$670,204 or 2.3% less than the final budget; public services, water and sewer expenditures were \$458,526 or 5.2% less than the final budget, and recreation and safety expenditures were \$585,384 or less than 1.2% of the final budget. In summary, the total operating expenditures were under budget by \$299,186 or 1.5% below the total final approved budget.

Capital expenditures for infrastructure and equipment were \$1,106,932 or \$316,068 less than the final budget.

### **Capital Asset and Debt Administration**

**Capital Assets** - The District spent \$1,106,932 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 \$5,415,618 at June 30, 2022. Additional information can be found in Note 6 starting on page 25 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 the Orange County companies that were surveyed 34.9% intend to increase the labor force, 59% intend to make no change and 6% expect to cut jobs. Of the firms surveyed 32.5% are expecting high profits in the first quarter of 2023, with 34.9% expecting no change and 32.5% are expecting lower profits. The Southern California Leading Economic Indicator decreased by 1.7% in the third quarter of 2022 when compared to the second quarter 2022. The decrease may indicate a decrease in economic activity in Southern California in the following three to six months. The median price of a single-family home in Orange County rose by 17.1% in the 2022 and is expected to decline by 31.1% in 2023 due to new construction of affordable housing and higher interest rates. The District is experiencing higher than expected construction costs for its Capital Projects and has increased borrowing by \$2,040,000 to ensure that the necessary Capital Improvement Projects are completed 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 2021-2022 annual budget. Increases in estimated property taxes are estimated to be 7% 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, 2022

	Governmental Activities
<b>Assets</b>	
Cash and investments	\$ 2,880,718
Taxes receivable	63,866
Interest receivable	5,408
Other assets	41,737
Capital assets, net	14,974,777
Total assets	17,966,506
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable and accrued expenses	127,301
Accrued interest payable	31,315
Due to Emerald Bay Community Association	69,823
Current portion of long-term liabilities	565,510
Total current liabilities	793,949
<b>Non-Current Liabilities</b>	
Non-current portion of long-term liabilities	5,267,268
Total liabilities	6,061,217
<b>Net Position</b>	
Net investment in capital assets	9,141,999
Unrestricted	2,763,290
Total net position	\$ 11,905,289

Emerald Bay Service District  
Statement of Activities  
For the Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues Capital Grants and Contributions	Net (Expenses) and Changes in Net Position
Governmental activities			
General government	\$ 1,570,710	\$ -	\$ (1,570,710)
Public services water and sewer services	592,738	-	(592,738)
Recreation and safety	585,384	-	(585,384)
Interest and fiscal charges	136,393	-	(136,393)
Total governmental activities	\$ 2,885,225	\$ -	\$ (2,885,225)
General revenues			
Taxes			\$ 2,944,638
Investment income (loss)			(22,808)
Miscellaneous			3,800
Total general revenues			2,925,630
Change in Net Position			40,405
Net Position - Beginning of Year (Restated)			11,864,884
Net Position - End of Year			\$ 11,905,289

Emerald Bay Service District  
Balance Sheet – Governmental Fund  
June 30, 2022

	General Fund
<b>Assets</b>	
Cash and investments	\$ 2,880,718
Taxes receivable	63,866
Interest receivable	5,408
Other assets	41,737
Total assets	\$ 2,991,729
<b>Liabilities and Fund Balance</b>	
<b>Liabilities</b>	
Accounts payable and accrued expenses	\$ 127,301
Due to Emerald Bay Community Association	69,823
Total liabilities	197,124
<b>Fund balance</b>	
Nonspendable	41,737
Assigned - future capital improvements	439,223
Unassigned	2,313,645
Total fund balance	2,794,605
Total liabilities and fund balance	\$ 2,991,729

Emerald Bay Service District  
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position  
June 30, 2022

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Fund balance of governmental fund	\$ 2,794,605
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/amortization	14,974,777
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	
Installment Sales Agreement	(5,415,618)
Lease liability	(417,160)
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>(31,315)</u>
Net position of governmental activities	<u><u>\$ 11,905,289</u></u>

Emerald Bay Service District  
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund  
For the Year Ended June 30, 2022

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	General Fund
Revenues	
Taxes	\$ 2,944,638
Investment income (loss)	(22,808)
Other	3,800
Total revenues	2,925,630
Expenditures	
Current	
General government	670,204
Public services water and sewer services	458,526
Recreation and safety	585,384
Capital outlay	1,106,932
Debt service	
Principal retirement	332,677
Interest and fiscal charges	135,983
Total expenditures	3,289,706
Net Change in Fund Balance	(364,076)
Fund Balance, Beginning	3,158,681
Fund Balance, Ending	\$ 2,794,605



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, 2022

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Net change in fund balance - governmental fund \$ (364,076)

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	1,106,932
Depreciation/amortization expense	(1,034,718)

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:

Lease principal payments	193,774
Installment Sales Agreement 2015 - repayment	138,903

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.

(410)

Change in Net Position of Governmental Activities \$ 40,405

**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.

Additionally, right to use leased assets are recognized at the lease commencement date and represent the District's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to please the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful live of the underlying asset using the straight-line method. The amortization period varies from 2 to 3 years, based on the lease term.

**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 99% of revenues for the year ended June 30, 2022.

## 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. Budgeted operating expenditures for FY 2022-23 totaled \$2,752,447 including budgeted debt service payments. As such, six to eight months would represent between \$1,376,224 and \$1,834,965.
- 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, 2022, the District has assigned \$439,223 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, 2022, 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, 2022, the unassigned fund balance totaled \$2,313,645, which includes the Emergency/Contingency reserve and the remaining \$2,362,831 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, leases, 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.

Lease liabilities represent District's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the District.

#### **H. New Governmental Accounting Standards Board (GASB) Pronouncements**

##### **Effective in the Current Year**

**GASB Statement No. 87** – As of July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain right to use leased assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 12 and the additional disclosures required by this standard are included in Notes 5, 6 and 7.

### Effective in Future Years

**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. 99** – In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement related to extension of the use of the London Interbank Offered Rate (LIBOR), accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statements No. 53 and No. 63 are effective upon issuance. The requirements of this Statement related to leases, Public-Private and Public-Public Partnerships (PPPs), and Subscription-Based Information Technology Arrangements (SBITAs) are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements of this Statement related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The District has not determined the effect on the financial statements.

**GASB Statement No. 100** – In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections—An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The District has not determined the effect on the financial statements.

**GASB Statement No. 101** – In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. The District has not determined the effect on the financial statements.

**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, 2022, consist of the following:

Deposits with financial institutions	
Balance per bank	\$ 58,177
less: reconciling items	<u>(5,027)</u>
Balance per books	<u>53,150</u>
Local Agency Investment Fund	<u>2,827,568</u>
Total cash and investments	<u><u>\$ 2,880,718</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, 2022, was \$2,827,568 and had a weighted average maturity of 311 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 \$2,827,568 at June 30, 2022 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 2021-22, the management service expense was \$173,905, which included administrative expenses, portion of sewer pipeline and storm drain cleaning costs, landscaping maintenance, various other outside services, and specific percentages of designated employees of EBCA. The other elements of the agreement are reflected in the lease liability as described in Notes 6 and 7. As of June 30, 2022, there was balance of \$69,823 due to EBCA for services rendered during FY 2021-22 under this agreement.

**Note 5 - Capital Assets**

During the year ended June 30, 2022, the District's capital assets consisted of following:

	(Restated) July 01, 2021	Additions	Deletions	June 30, 2022
Capital assets, not being depreciated				
Construction in progress	\$ 49,728	\$ 153,110	\$ -	\$ 202,838
Capital assets, being depreciated				
Water infrastructure	1,881,617	-	-	1,881,617
Sewer infrastructure and capacity rights	5,124,143	276,498	-	5,400,641
General infrastructure	3,723,094	677,324	-	4,400,418
Main gate	8,489,282	-	-	8,489,282
Equipment	164,175	-	-	164,175
Total capital assets, being depreciated	<u>19,382,311</u>	<u>953,822</u>	<u>-</u>	<u>20,336,133</u>
Less accumulated depreciation for Capital assets being depreciated	<u>(5,140,410)</u>	<u>(827,979)</u>	<u>-</u>	<u>(5,968,389)</u>
Total capital asset without leased assets	<u>\$ 14,291,629</u>	<u>\$ 125,843</u>	<u>\$ -</u>	<u>\$ 14,570,582</u>
Right to use Leased Assets Being Amortized				
Right to use leased building	\$ 559,723	\$ -	\$ -	\$ 559,723
Right to use leased equipment	51,211	-	-	51,211
Total right to use leased assets being amortized	<u>610,934</u>	<u>-</u>	<u>-</u>	<u>610,934</u>
Less Accumulated Amortization for				
Right to use leased building	-	(185,575)	-	(185,575)
Right to use leased equipment	-	(21,164)	-	(21,164)
Total accumulated amortization	<u>-</u>	<u>(206,739)</u>	<u>-</u>	<u>(206,739)</u>
Net right to use leased assets	<u>610,934</u>	<u>(206,739)</u>	<u>-</u>	<u>404,195</u>
Total capital assets, net	<u>\$ 14,902,563</u>	<u>\$ (80,896)</u>	<u>\$ -</u>	<u>\$ 14,974,777</u>

Depreciation expense of \$527,308 was allocated to general government and \$300,671 was charged to the public services water and sewer services for the year ended June 30, 2022 on the Statement of Activities.

Amortization expense of \$185,575 was allocated to general government and \$21,164 was charged to public services water and sewer services for the year ended June 30, 2022.

**Note 6 - Leases**

The District has entered into three total lease agreements. Two lease agreements are for trucks and equipment used for sewer operations. The District is required to make principal and interest payments through March 2024. The lease liability was valued using discount rates of 7% based on the District's incremental borrowing rate at the inception of the leases. The third lease is for EBCA rent for office space. The lease liability is valued using a discount rate of 4% based on the median US Treasury coupon rate which ranges from 3-5%. The total amount of right to use leased assets, and the related accumulated amortization on right to use leased assets was \$610,934 and \$206,739, as of June 30, 2022, respectively.

The following is the annual payments required for the three leases:

<u>Fiscal Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 205,918	\$ 12,486	\$ 218,404
2024	211,242	3,785	215,027
	<u>\$ 417,160</u>	<u>\$ 16,271</u>	<u>\$ 433,431</u>

**Note 7 - Long Term Liabilities**

The following is a summary of long-term liabilities of the District for the year ended June 30, 2022:

	Restated Balance	Additions	Deletions	Balance	Classification	
	July 01, 2021				June 30, 2022	Due Within One Year
Notes from direct borrowings and direct placements:						
Installment Sales Agreement	\$ 5,554,521	\$ -	\$ (138,903)	\$ 5,415,618	\$ 359,592	\$ 5,056,026
Lease liabilities:						
Lease liability - building	559,723	-	(174,658)	385,065	185,731	199,334
Lease liability - equipment	51,211	-	(19,116)	32,095	20,187	11,908
Total long term liabilities	<u>\$ 6,165,455</u>	<u>\$ -</u>	<u>\$ (332,677)</u>	<u>\$ 5,832,778</u>	<u>\$ 565,510</u>	<u>\$ 5,267,268</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.

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 made an interest only payment on October 7, 2021 in the amount of \$66,654 and a reduced payment of \$205,557 on April 7, 2022. The remaining payments will be \$243,711 through April 7, 2035.

For the year ended June 30, 2022, the District paid \$138,903 in principal, and \$133,309 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:

<u>Fiscal Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 359,592	\$ 127,830	\$ 487,422
2024	368,274	119,148	487,422
2025	377,165	110,257	487,422
2026	386,271	101,150	487,421
2027	395,598	91,824	487,422
2028-2032	2,125,954	311,155	2,437,109
2033-2035	1,402,764	59,502	1,462,266
	<u>\$ 5,415,618</u>	<u>\$ 920,866</u>	<u>\$ 6,336,484</u>

**Note 8 - 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, 2022:

Comprehensive Business Policy - SDRMA	
General property	\$ 1,000,000,000
Boiler and machinery	100,000,000
Flood (excluding A and V)	10,000,000
Flood (A and V)	10,000,000
Pollution	2,000,000
Cyber	2,000,000
Catastrophic Loss	1,000,000,000
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
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	1,000,000,000
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 9 - 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, 2022.

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

**Note 10 - 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 11 - 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 12 - Adoption of New Standard**

As of July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases or capital leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Beginning net position was restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

	Governmental Activities
Net Position, July 1, 2021	\$ 11,862,835
Additions	
Right-to-use assets:	
Right to use leased building	559,723
Right to use leased equipment	51,211
Lease liabilities:	
Lease liability - building	(559,723)
Lease liability - equipment	(51,211)
Removal	
Equipment	(58,682)
Accumulated depreciation	22,006
Capital lease	38,725
	\$ 11,864,884

	July 1, 2021 Previously Reported	Restatement	July 1, 2021 Restated
Capital Assets			
Equipment	\$ 222,857	\$ (58,682)	\$ 164,175
Accumulated depreciation	5,162,416	(22,006)	5,140,410
Right to use leased building	-	559,723	559,723
Right to use leased equipment	-	51,211	51,211
Liabilities			
Capital lease	38,725	(38,725)	-
Lease liability - building	-	559,723	559,723
Lease liability - equipment	-	51,211	51,211

As of the result of the implementation of GASB 87, *Leases*, \$610,934 in lease liabilities for leases related to right to use leased equipment and right to use buildings has been added to beginning balance presented above. As these lease liabilities are offset by an equal amount of lease assets, and the removal of the capital lease, the District reports a restatement to beginning net position for the implementation of GASB 87.

**Note 13 - Subsequent Events**

On July 1, 2022, the District authorized a second Installment Sales Agreement between the District and CN Financing Inc. in the amount of \$2,040,000. The agreement was made to help finance 2022 Capital Asset projects which includes: new sewer lift stations, drainage and tunnel repair, and other miscellaneous water, wastewater, sewer, and drainage system improvements. The District's first payment of \$53,892 was due on October 7, 2022. The remaining payments will be \$73,272 made twice a year on April 7<sup>th</sup> and October 7<sup>th</sup>. The final payment will be made on April 7, 2042.





Required Supplementary Information  
June 30, 2022

## 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, 2022

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes	\$ 2,993,031	\$ 2,922,454	\$ 2,944,638	\$ 22,184
Investment income (loss)	17,000	7,000	(22,808)	(29,808)
Other	30,500	30,180	3,800	(26,380)
Total revenues	<u>3,040,531</u>	<u>2,959,634</u>	<u>2,925,630</u>	<u>(34,004)</u>
Expenditures				
Current:				
General government	893,000	875,000	670,204	204,796
Public services water and sewer services	459,500	483,500	458,526	24,974
Recreation and safety	616,800	654,800	585,384	69,416
Capital outlay	1,276,000	1,423,000	1,106,932	316,068
Debt service				
Principal retirement	158,019	158,019	332,677	(174,658)
Interest and fiscal charges	114,193	114,193	135,983	(21,790)
Total expenditures	<u>3,517,512</u>	<u>3,708,512</u>	<u>3,289,706</u>	<u>418,806</u>
Net Change In Fund Balance	<u>(476,981)</u>	<u>(748,878)</u>	<u>(364,076)</u>	<u>384,802</u>
Fund Balance, Beginning	<u>3,158,681</u>	<u>3,158,681</u>	<u>3,158,681</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 2,681,700</u>	<u>\$ 2,409,803</u>	<u>\$ 2,794,605</u>	<u>\$ 384,802</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, 2022

## Emerald Bay Service District

Emerald Bay Service District  
 General Fund - Functional Expenditures Budgetary Comparison Schedule  
 For the Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>General Government</b>				
Wages and salaries	\$ 111,650	\$ 111,650	\$ 107,023	\$ 4,627
Payroll taxes	9,350	9,350	8,081	1,269
Workers compensation insurance	2,000	2,000	1,419	581
Employee benefits	20,000	20,000	12,378	7,622
Personnel administrative	3,000	3,000	1,845	1,155
Property tax collection fees	7,000	7,000	7,220	(220)
Tax administration charge	16,000	16,000	10,819	5,181
Administration miscellaneous expense	9,000	9,000	8,087	913
Computer services	3,000	3,000	4,270	(1,270)
Insurance	115,000	115,000	114,964	36
Telephone	2,500	2,500	1,432	1,068
Memberships and conferences	11,000	11,000	9,265	1,735
Annual regulatory permits	9,000	9,000	7,496	1,504
Management services	353,000	353,000	173,905	179,095
LAFCO contribution/ expenses	3,000	3,000	2,278	722
Vehicle lease	6,000	6,000	-	6,000
District website	10,000	15,000	21,160	(6,160)
Accounting fees	40,000	40,000	50,541	(10,541)
Audit	17,500	17,500	17,000	500
Legal fees	120,000	80,000	73,617	6,383
Professional services - engineering	15,000	35,000	29,604	5,396
Engineer surveys and expenses	1,000	1,000	-	1,000
Plan check fees	9,000	6,000	7,800	(1,800)
<b>Total general government</b>	<b>893,000</b>	<b>875,000</b>	<b>670,204</b>	<b>204,796</b>
<b>Public Services Water and Sewer Services</b>				
Sewage treatment services	185,000	185,000	194,724	(9,724)
North coast interceptor	50,000	50,000	33,424	16,576
Maintenance equipment	13,000	13,000	436	12,564
Maintenance vehicle fuel and repairs	13,000	13,000	5,993	7,007
Sewer lift station - monthly inspections	5,000	5,000	4,346	654
Sewer lift station - electricity	13,000	13,000	11,745	1,255
Sewer list station - water	2,000	2,000	666	1,334
Supplies and chemicals	2,000	9,000	5,745	3,255
Sewer repair and maintenance	56,000	56,000	75,385	(19,385)
Backflow Testing	-	2,000	1,850	150
Sewer pipeline system cleaning	70,000	85,000	85,080	(80)
Water conservation	1,000	1,000	864	136
Misc. water expense	1,500	1,500	187	1,313
Beach Cleaning	41,000	41,000	31,547	9,453
Water Runoff	7,000	7,000	6,534	466
<b>Total public services water and sewer services</b>	<b>459,500</b>	<b>483,500</b>	<b>458,526</b>	<b>24,974</b>

(continued)

Emerald Bay Service District  
 General Fund - Functional Expenditures Budgetary Comparison Schedule - Continued  
 For the Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Recreation and Safety				
Beach lifeguards	\$ 155,000	\$ 155,000	\$ 162,341	\$ (7,341)
Lifeguards - pool	95,000	95,000	54,798	40,202
Fireworks - outside services	43,000	43,000	42,076	924
Fireworks - outside services sheriffs	43,000	43,000	37,042	5,958
Fireworks - barge	30,000	30,000	29,424	576
Fireworks - chase boat	2,000	2,000	2,000	-
Storm drain cleaning	53,000	80,000	79,198	802
Emergency storm contingency	15,000	10,000	-	10,000
Storm drain maint/repair	10,000	10,000	16,244	(6,244)
Equipment lease	16,800	16,800	-	16,800
Street sweeping	38,000	38,000	36,610	1,390
Drills and training	1,000	1,000	-	1,000
EOC supplies/miscellaneous	5,000	5,000	4,267	733
CERT communications	9,000	15,000	1,113	13,887
Medical	6,000	6,000	4,519	1,481
Fuel modification/Weed abatement	40,000	40,000	50,639	(10,639)
Landscaping materials - entrance	25,000	35,000	39,303	(4,303)
Landscaping water - entrance	10,000	10,000	7,979	2,021
Landscape maintenance - contract	20,000	20,000	17,831	2,169
Total recreation and safety	<u>616,800</u>	<u>654,800</u>	<u>585,384</u>	<u>69,416</u>
Debt service	272,212	272,212	468,660	(196,448)
Capital outlay	1,276,000	1,423,000	1,106,932	316,068
Total expenditures	<u>\$ 3,517,512</u>	<u>\$ 3,708,512</u>	<u>\$ 3,289,706</u>	<u>\$ 418,806</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  
Laguna Beach, California

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, 2022, 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 20, 2022. Our report included an emphasis of matter regarding the District's adoption of GASB Statement No. 87, *Leases*, effective July 1, 2021.

**Report on 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 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. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001 that we consider to be a significant deficiency.

## **Report on 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*.

## **Emerald Bay Service District's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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 result 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 cursive script that reads "Eide Bailly LLP".

Laguna Hills, California  
December 20, 2022



**2022-001**      **Leases**  
**Significant Deficiency**

**Criteria:**

The District adopted GASB 87, *Leases*, effective July 1, 2021. This standard requires the recognition of certain right to use leased assets and liabilities for lease arrangements.

**Condition:**

During our testing of the District's implementation of leases, the District asserted two equipment leases were subject to the new standard. As a result of our testing, we identified elements of an additional lease with the Emerald Bay Community Association, which also required evaluation under GASB 87.

**Cause:**

The District's procedures did not identify the elements of the lease that triggered the GASB 87 lease recognition.

**Effect:**

As a result of our procedures, we identified an additional lease subject to GASB 87. The District concurred with the evaluation, and have properly reflected the lease in the financial statements.

**Recommendation:**

We recommend the District evaluate its process for cataloging its leases, including tracking the key elements that may or may not trigger lease recognition under GASB 87.

**Views of Responsible Officials:**

Management of the Emerald Bay Service District will evaluate each lease contract for lease recognition under GASB 87. This analysis will be presented, via staff report, to the Board as the leases are approved during the District's Board meetings.