

# **Emerald Bay Service District**

Laguna Beach, California

## **Independent Auditor's Reports and Basic Financial Statements**

*For the Year Ended June 30, 2025*





**Emerald Bay Service District  
Basic Financial Statements  
For the Year Ended June 30, 2025**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
of 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 Emerald Bay Service District (the "District") as of and for the year ended June 30, 2025, 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 of the District, as of June 30, 2025, 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 District'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.

#### *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 opinion. 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 the budgetary comparison schedule – General Fund, 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 11, 2025 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 District’s internal control over financial reporting and compliance.

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

Santa Ana, California  
December 11, 2025

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**Emerald Bay Service District**  
**Management’s Discussion and Analysis (Unaudited)**  
**June 30, 2025**

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As management of the Emerald Bay Service District (the “District”), we offer readers of the statements, this narrative overview and analysis of the financial activities of the District ended June 30, 2025. We encourage readers to consider the information presented here in conjunction with the District’s basic financial statements, which can be found on pages 11 to 37 of this report.

**Operational Overview**

The 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 (the “County”) 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 \$12,628,318 (net position). Of this amount \$2,547,601 (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 \$117,883. This increase is attributable to additional investment in the District’s infrastructure.
- Cash and investments available to the District decreased by \$1,228,136, this decrease was due to the investment in 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 information in addition to the basic financial statements.

**Emerald Bay Service District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**June 30, 2025**

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**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 15 and 16 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 19 to 22 of this report. The required supplementary information can be found on page 41.

**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 25 to 37 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 \$12,628,318 at the close of the most recent fiscal year. Approximately 79.83% 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.

Current assets decreased \$1,193,570 due to investment in infrastructure of \$1,803,373 and repayment of previously acquired debt.

Liabilities decreased by \$450,654 mainly due to repayment of debt in the amount of \$452,294 and lease payments in the amount of \$6,169.

**Emerald Bay Service District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**June 30, 2025**

**Statement of Net Position – Governmental Activities**

|                                  | June 30, 2025        | June 30, 2024        | Change            |
|----------------------------------|----------------------|----------------------|-------------------|
| Assets                           |                      |                      |                   |
| Current and other assets         | \$ 3,231,032         | \$ 4,424,602         | \$ (1,193,570)    |
| Capital assets                   | 15,751,543           | 14,890,744           | 860,799           |
| Total assets                     | <u>18,982,575</u>    | <u>19,315,346</u>    | <u>(332,771)</u>  |
| Current liabilities              | 683,431              | 663,191              | 20,240            |
| Noncurrent liabilities           | 5,670,826            | 6,141,720            | (470,894)         |
| Total liabilities                | <u>6,354,257</u>     | <u>6,804,911</u>     | <u>(450,654)</u>  |
| Net Position                     |                      |                      |                   |
| Net investment in capital assets | 10,080,717           | 8,749,024            | 1,331,693         |
| Unrestricted                     | 2,547,601            | 3,761,411            | (1,213,810)       |
|                                  | <u>\$ 12,628,318</u> | <u>\$ 12,510,435</u> | <u>\$ 117,883</u> |

None of the District's net position is subject to external restrictions at June 30, 2025. The balance of unrestricted net position may be used to meet the District's ongoing obligations.

**Statement of Activities – Governmental Activities**

|   | June 30, 2025        | June 30, 2024        | Change            |
|---|----------------------|----------------------|-------------------|
| General Revenues                                      |                      |                      |                   |
| Property tax  | \$ 3,561,900         | \$ 3,328,381         | \$ 233,519        |
| Investment income                                     | 145,851              | 164,150              | (18,299)          |
| Other   | 55,645               | 6,383                | 49,262            |
| Total general revenues                                | <u>3,763,396</u>     | <u>3,498,914</u>     | <u>264,482</u>    |
| Program revenues - operating grants and contributions | <u>-</u>             | <u>710</u>           | <u>(710)</u>      |
| Expenses  |                      |                      |                   |
| General government                                    | 2,120,995            | 1,690,773            | 430,222           |
| Public services                                       | 506,008              | 649,396              | (143,388)         |
| Recreation and safety                                 | 838,827              | 705,965              | 132,862           |
| Interest and fiscal charges                           | 179,683              | 195,466              | (15,783)          |
| Total expenses  | <u>3,645,513</u>     | <u>3,241,600</u>     | <u>403,913</u>    |
| Change in Net Position                                | 117,883              | 258,024              | (140,141)         |
| Net Position - Beginning of Year                      | 12,421,337           | 12,163,313           | 258,024           |
| Net Position - End of Year                            | <u>\$ 12,539,220</u> | <u>\$ 12,421,337</u> | <u>\$ 117,883</u> |

**Emerald Bay Service District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**June 30, 2025**

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**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, 2025, the District's governmental fund reported an ending fund balance of \$3,058,538, a decrease of \$1,204,150 as compared to the prior fiscal year. Unassigned fund balance of \$1,708,560 is available for spending at the District's discretion. The Board has assigned \$1,283,115 for future capital improvement projects.

This decrease can be compared to a decrease of \$927,152 in the prior fiscal year. Key factors in the changes are as follows:

- Capital expenditures for infrastructure and equipment increased \$134,107 in the prior fiscal year to \$1,793,965 in the current year. Additionally, principal payments and interest payments for debt service and lease payments were made in the amount of \$640,833.

**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 2.88% increase in secured and unsecured property taxes when developing and approving the original budget approved in June 2024. Subsequently, the Board approved budget adjustments on March 19, 2025, to more accurately project the actual revenues and expenses. Actual revenues were over the Final Budget by \$22,035 or 0.59%.
- General government expenditures were \$1,194,000 or 1.5% less than the final budget; public services, water and sewer expenditures were \$499,838 or 15.3% less than the final budget, and recreation and safety expenditures were \$838,827 or 2.00% more than the final budget. In summary, the total current operating expenditures were under budget by \$90,497 or 4.0% below the total final approved budget.

Capital expenditures for infrastructure and equipment were \$1,793,965 or \$504,965 greater than the final budget.

**Capital Asset and Debt Administration**

**Capital Assets** - The District spent \$1,794,048 on infrastructure assets and equipment.

Additional information on the District's capital assets can be found in Note 4 on page 32 of the notes to the financial statements.

**Emerald Bay Service District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**June 30, 2025**

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**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 \$4,310,586 at June 30, 2025 and an additional bond financing issued for \$2,040,000 in July 2022 with an outstanding balance of \$1,822,839 at June 30, 2025. The District also has outstanding lease liability of \$8,259 at June 30, 2025. Additional information can be found in Note 5 starting on page 33 of the notes to the financial statements.

**Economic Factors and Next Year's Budgets and Rates**

The Woods Center economic forecast for 2026 anticipates a period of moderate growth for Orange County, California. Key indicators suggest continued expansion in employment, real estate, and consumer spending, although the pace may be slower compared to previous years due to national and global economic uncertainties.

Job growth is expected to remain positive, driven by the healthcare, technology, and professional services sectors. Unemployment rates are projected to stay below the national average, reflecting Orange County's diversified economy and strong business environment.

The Orange County housing market is beginning to slow down after a five-year surge. The median number of days on the market has increased to 32.5 which is 8.5 days longer to sell in 2019. The median home price was 6.5% less between February and August 2025 and the average listing price was 16.5% lower in August 2025 than the peak at January 2024.

Overall, the Woods Center economic outlook for Orange County in 2026 is cautiously optimistic, highlighting the region's strengths while acknowledging challenges that may impact future growth.

Assessed property values continue to increase for the addresses included within the District's property tax allocations. Since 2011 the County, 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 2025-2026 annual budget. Increases in estimated secured property taxes are estimated to be 4.00% and investment earnings are expected to remain consistent for the upcoming year. Overall, the District only budgeted a 3.27% increase in revenue.

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.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**Emerald Bay Service District**  
**Statement of Net Position**  
**June 30, 2025**

|  | <b>Governmental<br/>Activities</b> |
|--|------------------------------------|
| <b>ASSETS</b>                                |                                    |
| <b>Assets:</b>                               |                                    |
| Cash and investments                         | \$ 3,073,314                       |
| Taxes receivable                             | 66,056                             |
| Interest receivable                          | 24,799                             |
| Other assets                                 | 66,863                             |
| Capital assets, net                          | 15,751,543                         |
| <b>Total assets</b>                          | <b>\$ 18,982,575</b>               |
| <b>LIABILITIES</b>                           |                                    |
| <b>Current liabilities:</b>                  |                                    |
| Accounts payable and accrued expenses        | \$ 98,599                          |
| Accrued interest payable                     | 40,079                             |
| Due to Emerald Bay Community Association     | 73,895                             |
| Current portion of long-term liabilities     | 470,858                            |
| <b>Total current liabilities</b>             | <b>683,431</b>                     |
| <b>Noncurrent liabilities:</b>               |                                    |
| Non-current portion of long-term liabilities | 5,670,826                          |
| <b>Total liabilities</b>                     | <b>6,354,257</b>                   |
| <b>Net Position:</b>                         |                                    |
| Net investment in capital assets             | 10,080,717                         |
| Unrestricted                                 | 2,547,601                          |
| <b>Total net position</b>                    | <b>\$ 12,628,318</b>               |

**Emerald Bay Service District**  
**Statement of Activities**  
**For the Year Ended June 30, 2025**

| <b>Functions/Programs</b>                | <b>Expense</b>      | <b>Program Revenues<br/>Operating<br/>Grants and<br/>Contributions</b> | <b>Net (Expenses)<br/>and Changes<br/>in Net Position</b> |
|--|---------------------|--|---|
| <b>Governmental activities</b>           |                     |  |   |
| General government                       | \$ 2,120,995        | \$ -   | \$ (2,120,995)  |
| Public services water and sewer services | 506,008             | -  | (506,008)   |
| Recreation and safety                    | 838,827             | -  | (838,827)   |
| Interest and fiscal changes              | 179,683             | -  | (179,683)   |
| <b>Total governmental activities</b>     | <b>\$ 3,645,513</b> | <b>\$ -</b>  | <b>\$ (3,645,513)</b>                                     |
| <b>General revenue:</b>                  |                     |  |   |
| Taxes                                    |                     |  | 3,561,900   |
| Investment income                        |                     |  | 145,851   |
| Miscellaneous                            |                     |  | 55,645  |
| <b>Total general revenues</b>            |                     |  | <b>3,763,396</b>  |
| <b>Change in Net Position</b>            |                     |  | <b>117,883</b>  |
| <b>Net Position - Beginning of Year</b>  |                     |  | <b>12,510,435</b>   |
| <b>Net Position - End of Year</b>        |                     |  | <b>\$ 12,628,318</b>                                      |

**FUND FINANCIAL STATEMENTS**

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**Emerald Bay Service District**  
**Balance Sheet - Governmental Fund**  
**June 30, 2025**

|   | <b>General Fund</b> |
|---|---------------------|
| <b>Assets</b>                             |                     |
| Cash and investments                      | \$ 3,073,314        |
| Taxes receivable                          | 66,056              |
| Interest receivable                       | 24,799              |
| Other assets                              | 66,863              |
| <b>Total assets</b>                       | <b>\$ 3,231,032</b> |
| <b>Liabilities and Fund Balance</b>       |                     |
| <b>Liabilities:</b>                       |                     |
| Accounts payable and accrued expenditures | \$ 98,599           |
| Due to Emerald Bay Community Association  | 73,895              |
| <b>Total liabilities</b>                  | <b>172,494</b>      |
| <b>Fund Balance:</b>                      |                     |
| Nonspendable                              | 66,863              |
| Assigned - future capital improvements    | 1,283,115           |
| Unassigned                                | 1,708,560           |
| <b>Total fund balance</b>                 | <b>3,058,538</b>    |
| <b>Total liabilities and fund balance</b> | <b>\$ 3,231,032</b> |

**Emerald Bay Service District**  
**Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position**  
**June 30, 2025**

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|   |                      |
|---|----------------------|
| <b>Fund balance of Total Governmental Fund</b>  | \$ 3,058,538         |
| Amounts reported for governmental activities in the statement of net position are different because:  |                      |
| Capital assets used in governmental activities were not financial recourses and therefore were not reported in the Governmental Funds Balance Sheet.            |                      |
| Capital assets, net of accumulated depreciation and amortization  | 15,751,543           |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.                                   |                      |
| Installment sales agreement   | (6,133,425)          |
| Lease liability   | (8,259)              |
| Accrued interest payable on long-term liabilities do no require and use of current financial resource and therefore are not reported in the governmental funds. |                      |
| Interest payable  | (40,079)             |
| <b>Net position of Governmental Activities</b>  | <b>\$ 12,628,318</b> |

**Emerald Bay Service District**  
**Statement of Revenues, Expenditures, and Change in Fund Balance - Governmental Fund**  
**For the Year Ended June 30, 2025**

|  | <b>General Fund</b> |
|--|---------------------|
| <b>Revenues:</b>                         |                     |
| Taxes                                    | \$ 3,561,900        |
| Investment income                        | 145,851             |
| Other                                    | 55,645              |
| Total revenues                           | 3,763,396           |
| <b>Expenditures:</b>                     |                     |
| Current                                  |                     |
| General government                       | 1,194,000           |
| Public services water and sewer services | 499,838             |
| Recreation and safety                    | 838,827             |
| Capital outlay                           | 1,793,965           |
| Debt service                             |                     |
| Principal retirement                     | 458,463             |
| Interest and fiscal charges              | 182,453             |
| Total expenditures                       | 4,967,546           |
| <b>Net Change in Fund Balance</b>        | <b>(1,204,150)</b>  |
| <b>Fund balance:</b>                     |                     |
| Beginning of year                        | 4,262,688           |
| End of year                              | \$ 3,058,538        |

**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**  
**For the Year Ended June 30, 2025**

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**Net change in fund balance - Total Governmental Fund** \$ (1,204,150)

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 and amortized over their estimated useful lives.

|                                   |           |
|-----------------------------------|-----------|
| Capital outlay                    | 1,793,965 |
| Depreciation/amortization expense | (933,166) |

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                 | 6,169   |
| Installment sales agreements - repayment | 452,294 |

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.

2,771

**Change in Net Position of Governmental Activities** \$ 117,883

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**Emerald Bay Service District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2025**

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**Note 1 – Reporting Entity**

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 (the “County”) 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 accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). 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.

**Emerald Bay Service District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2025**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

**A. Basis of Presentation and Measurement Focus (Continued)**

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 fund:

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, Cash Equivalents, and Investments**

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

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

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

**C. Capital Assets**

Capital assets, which include infrastructure and equipment, are reported in the governmental activities column in the government-wide financial statements. Assets are recorded at historical cost, or estimated historical cost, if purchased or constructed or acquired through capital leases. Donated assets are valued at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The District utilizes a capitalization threshold of \$5,000.

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

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

**Emerald Bay Service District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2025**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

**C. Capital Assets (Continued)**

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 lease 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 lease 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 lease 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 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% of revenues for the year ended June 30, 2025.

**E. Fund Balance**

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 constrains 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).

**Emerald Bay Service District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2025**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

**E. Fund Balance (Continued)**

- **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 committed or restricted 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 2025-26 totaled \$3,336,237 including budgeted debt service payments. As such, six to eight months would represent between \$1,668,119 and \$2,222,159.
- 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.
- 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.

**F. Classification of Net Position**

On the statement of net position, net position is classified into three 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 amortization, 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.
- Restricted net position - This component of net position is restricted as to use by terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District may not unilaterally alter.
- 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.

**Emerald Bay Service District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2025**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

**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. Estimates**

The preparation of financial statements in accordance with U.S. GAAP 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 June 30, 2025, consist of the following:

|                              |              |
|------------------------------|--------------|
| <b>Deposits:</b>             |              |
| Balance per bank             | \$ 270,659   |
| less: reconciling items      | (95,862)     |
| Total deposits per books     | \$ 174,797   |
| <b>Investments:</b>          |              |
| Money market mutual funds    | \$ 21,926    |
| Local Agency Investment Fund | 1,824,287    |
| California CLASS             | 1,052,304    |
| Total investments            | 2,898,517    |
| Total cash and investments   | \$ 3,073,314 |

**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.

**Emerald Bay Service District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2025**

**Note 3 – Cash and Investments (Continued)**

**Authorized Investments (Continued)**

| Investment Type<br>Authorized by State Law  | Authorized<br>By<br>Investment<br>Policy | *Maximum<br>Maturity | *Maximum<br>Percentage<br>of Portfolio | *Maximum<br>Investments<br>In One Issuer |
|---|--|----------------------|--|--|
| Local Agency Bonds  |  | 5 years              | None                                   | None                                     |
| U.S. Treasury Obligations   | Yes                                      | 6 years**            | None                                   | None                                     |
| FDIC Insured Certificates of Deposit  | Yes                                      | N/A                  | 75%                                    | 20%                                      |
| Local Agency Investment Fund ("LAIF")   | Yes                                      | N/A                  | None                                   | \$75,000,000                             |
| California Cooperative Liquid Assets Security System Enhanced Cash Fund (California CLASS)*** | Yes                                      | N/A                  | None                                   | None                                     |

\* 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.

\*\*\* The District may invest in the California CLASS. The fund must have a twenty-four hour liquidity.

**Custodial Credit Risk**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The California Government Code requires California banks and savings and loan associations to secure the district's deposits by pledging government securities with a fair value of 110% of a city's deposits. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a fair value of 150% of a city's total deposits. The collateral for deposits in federal and state-chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

**Local Agency Investment Fund**

As of June 30, 2025, the District had \$1,824,287 invested in LAIF. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The District's investment in LAIF is reported at amortized cost.

**California CLASS**

California CLASS is a pooled investment option that was created via a joint exercise of powers agreement by and among California public agencies. California CLASS provides California public agencies with a convenience method for investing in high-liquid, short to medium term securities. Deposits and withdrawals to and from California CLASS are transferred on the basis of \$1 and not fair value. Accordingly, under the fair value hierarchy, California CLASS is valued based on inputs not categorized as level 1, level 2 or level 3.

As of June 30, 2025, the District had \$1,052,304 invested in the California CLASS.

**Emerald Bay Service District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2025**

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**Note 3 – Cash and Investments (Continued)**

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rates. The District limits the investment maturities for operating funds to be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures as well as considering sizable blocks of anticipated revenue. The District has elected the specific identification method to present the investment maturities as follows:

| Investment Type              | Total        | 12 months<br>or Less |
|------------------------------|--------------|----------------------|
| Money Market Mutual Funds    | \$ 21,926    | \$ 21,926            |
| Local Agency Investment Fund | 1,824,287    | 1,824,287            |
| California CLASS             | 1,052,304    | 1,052,304            |
| Total investments            | \$ 2,898,517 | \$ 2,898,517         |

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. There is no minimum legal rating applicable for investments in the Local Agency Investment Fund or money market mutual funds. As of June 30, 2025, the District’s investment in the Local Agency Investment Fund nor money market mutual funds have not been rated by a nationally recognized statistical rating organization.

**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, California CLASS, and money market mutual funds are made on the basis of \$1 and not at fair value. Accordingly, the District’s investment in LAIF of \$1,824,287, CalCLASS of \$1,052,304, and money market mutual funds of \$21,659 at June 30, 2025 is measured based on uncategorized inputs not defined as level 1, level 2, or level 3.

**Emerald Bay Service District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2025**

**Note 4 – Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2025, is as follows:

|  | Balance<br>July 1, 2024 | Additions         | Deletions   | Balance<br>June 30, 2025 |
|--|-------------------------|-------------------|-------------|--------------------------|
| <b>Capital assets, not being depreciated:</b>          |                         |                   |             |                          |
| Construction in Process                                | \$ 505,393              | \$ 869,047        | \$ -        | \$ 1,374,440             |
| <b>Total capital assets, not being depreciated</b>     | <b>505,393</b>          | <b>869,047</b>    | <b>-</b>    | <b>1,374,440</b>         |
| <b>Capital assets, being depreciated:</b>              |                         |                   |             |                          |
| Water infrastructure                                   | 1,895,249               | 129,185           | -           | 2,024,434                |
| Sewer infrastructure and capacity rights               | 6,404,905               | 195,146           | -           | 6,600,051                |
| General infrastructure                                 | 5,105,991               | 413,776           | -           | 5,519,767                |
| Gate   | 8,489,282               | -                 | -           | 8,489,282                |
| Equipment  | 199,036                 | 186,811           | -           | 385,847                  |
| <b>Total capital assets, being depreciated</b>         | <b>22,094,463</b>       | <b>924,918</b>    | <b>-</b>    | <b>23,019,381</b>        |
| <b>Less accumulated depreciation for:</b>              |                         |                   |             |                          |
| Water infrastructure                                   | (953,737)               | (102,597)         |             | (1,056,334)              |
| Sewer infrastructure and capacity rights               | (2,362,138)             | (259,106)         |             | (2,621,244)              |
| General infrastructure                                 | (1,688,575)             | (218,751)         |             | (1,907,326)              |
| Gate   | (2,547,581)             | (339,571)         |             | (2,887,152)              |
| Equipment  | (171,148)               | (6,972)           |             | (178,120)                |
| <b>Total accumulated depreciation</b>                  | <b>(7,723,179)</b>      | <b>(926,997)</b>  | <b>-</b>    | <b>(8,650,176)</b>       |
| <b>Total capital assets being depreciated, net</b>     | <b>14,371,284</b>       | <b>(2,079)</b>    | <b>-</b>    | <b>14,369,205</b>        |
| <b>Right to use lease assets being amortized</b>       |                         |                   |             |                          |
| Right to use lease equipment                           | 18,755                  | -                 | -           | 18,755                   |
| <b>Total right to use lease assets being amortized</b> | <b>18,755</b>           | <b>-</b>          | <b>-</b>    | <b>18,755</b>            |
| <b>Less accumulated amortization for</b>               |                         |                   |             |                          |
| Right to use lease equipment                           | (4,688)                 | (6,169)           | -           | (10,857)                 |
| <b>Total accumulated amortization</b>                  | <b>(4,688)</b>          | <b>(6,169)</b>    | <b>-</b>    | <b>(10,857)</b>          |
| <b>Net right to use lease assets</b>                   | <b>14,067</b>           | <b>(6,169)</b>    | <b>-</b>    | <b>7,898</b>             |
| <b>Total capital assets, net</b>                       | <b>\$ 14,890,744</b>    | <b>\$ 860,799</b> | <b>\$ -</b> | <b>\$ 15,751,543</b>     |

Depreciation expense of \$565,294 was allocated to general government and \$361,703 was charged to the public services water and sewer services for the year ended June 30, 2025 on the Statement of Activities.

Amortization expense of \$6,169 was charged to public services water and sewer services for the year ended June 30, 2025.

**Emerald Bay Service District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2025**

**Note 5 – Long Term Liabilities**

The following is a summary of long-term liabilities of the District for the year ended June 30, 2025:

|   | Balance<br>July 1, 2024 | Additions   | Deletions           | Balance<br>June 30, 2025 | Due Within<br>One Year | Due in More<br>Than One Year |
|---|-------------------------|-------------|---------------------|--------------------------|------------------------|------------------------------|
| Notes from direct borrowings and direct placements: |                         |             |                     |                          |                        |                              |
| Installment Sales Agreement #20-018                 | \$ 4,687,752            | \$ -        | \$ (377,166)        | \$ 4,310,586             | \$ 386,271             | \$ 3,924,315                 |
| Installment Sales Agreement #22-007                 | 1,897,967               | -           | (75,128)            | 1,822,839                | 78,010                 | 1,744,829                    |
| Lease Liabilities:                                  |                         |             |                     |                          |                        |                              |
| Lease liabilities - equipment                       | 14,428                  | -           | (6,169)             | 8,259                    | 6,577                  | 1,682                        |
| <b>Total long term liabilities</b>                  | <b>\$ 6,600,147</b>     | <b>\$ -</b> | <b>\$ (458,463)</b> | <b>\$ 6,141,684</b>      | <b>\$ 470,858</b>      | <b>\$ 5,670,826</b>          |

**Direct Borrowings and Direct Placements - Installment Sales Agreements**

Agreement 20-018

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, 2025, the District paid \$377,166 in principal, and \$110,257 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.

Agreement 22-007

In July 2022, the District entered into an Installment Sale Agreement with CN Financing Inc. for \$2,040,000 for the purpose of financing acquisition and construction of certain capital improvements, collectively referred to as the 2022 Project. The interest rate was 3.8%. The District made an initial payment of \$53,892 on October 7, 2022, followed by payments of \$73,272 each April and October through April 7, 2042.

For the year ended June 30, 2025, the District paid \$75,128 in principal, and \$71,416 in interest.

The District may prepay in whole or in part on any date on or after July 7, 2029 at a prepayment price equal to the principal plus accrued interest, without premium.

**Emerald Bay Service District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2025**

**Note 5 – Long Term Liabilities (Continued)**

**Direct Borrowings and Direct Placements - Installment Sales Agreements (Continued)**

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

| Fiscal Year Ended June 30, | Principal           | Interest            | Total               |
|----------------------------|---------------------|---------------------|---------------------|
| 2026                       | \$ 464,281          | \$ 169,684          | \$ 633,965          |
| 2027                       | 476,601             | 157,365             | 633,966             |
| 2028                       | 489,259             | 144,707             | 633,966             |
| 2029                       | 502,268             | 131,698             | 633,966             |
| 2030                       | 515,636             | 118,330             | 633,966             |
| 2031-2035                  | 2,792,055           | 377,775             | 3,169,830           |
| 2036-2040                  | 613,646             | 119,074             | 732,721             |
| 2041-2042                  | 279,679             | 13,410              | 293,088             |
| Total                      | <u>\$ 6,133,425</u> | <u>\$ 1,232,043</u> | <u>\$ 7,365,468</u> |

**Lease**

The District has entered into a lease agreement. The District is required to make principal and interest payments through September 2026. The lease liability was valued using discount rates of 7% based on the District's incremental borrowing rate at the inception of the lease. The total amount of right to use lease assets, and the related accumulated amortization on right to use lease assets was \$18,755 and \$10,857, as of June 30, 2025, respectively.

The following is the annual payments required for the lease:

| Year Ending<br>June 30 | Principal       | Interest      | Total           |
|------------------------|-----------------|---------------|-----------------|
| 2026                   | \$ 6,577        | \$ 372        | \$ 6,949        |
| 2027                   | 1,682           | 20            | 1,702           |
| Total                  | <u>\$ 8,259</u> | <u>\$ 392</u> | <u>\$ 8,651</u> |

**Note 6 – 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.

**Emerald Bay Service District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2025**

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**Note 6 – Insurance Program (Continued)**

The following is a summary of the insurance policies carried by the District for the fiscal year ended June 30, 2025:

|                                       |                  |
|---------------------------------------|------------------|
| 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       |
| Non-owned auto bodily injury          | 10,000,000       |
| Non-owned 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       |

**Emerald Bay Service District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2025**

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**Note 7 – Other Required Disclosures**

*Expenditures in Excess of Budget*

The following categories of expenditures were in excess of the final budget:

| Fund                        | Final<br>Budget | Actual<br>Expenditures | Excess of<br>Expenditures over<br>Budget |
|-----------------------------|-----------------|------------------------|--|
| General Fund                |                 |                        |  |
| Current:                    |                 |                        |  |
| Recreation and safety       | \$ 872,120      | \$ 838,827             | \$ 33,293                                |
| Capital outlay              | 2,193,800       | 1,793,965              | 399,835                                  |
| Debt service:               |                 |                        |  |
| Interest and fiscal charges | -               | 182,453                | (182,453)                                |

**Note 8 – Joint Powers Authorities (JPA)**

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

The District is one of six members agencies that participate in SOCWA (Originally, SOCWA consisted of seven member agencies. As of January 2025, one of the member agencies (Moulton Niguel Water District) withdrew from SOCWA.) SOCWA treats, beneficially reuses, and disposes of wastewater in South Orange County. SOCWA operates two treatment plants (WWTP) and two ocean outfalls in the region. SOCWA has six member agencies, including two cities and four special districts. A Board of Directors consisting of six representatives from member agencies governs SOCWA.

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 \$171,625 for operating and maintenance, and \$69,238 for capital projects to SOCWA for the year ended June 30, 2025.

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.

**Emerald Bay Service District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2025**

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**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 are billed by the LBCWD directly.

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**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

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**Emerald Bay Service District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For the Year Ended June 30, 2025**

|  | Original<br>Budget    | Final<br>Budget       | Actual              | Variance<br>Positive<br>(Negative) |
|--|-----------------------|-----------------------|---------------------|------------------------------------|
| <b>Revenues:</b>                         |                       |                       |                     |                                    |
| Taxes                                    | \$ 3,380,611          | \$ 3,549,031          | \$ 3,561,900        | \$ 12,869                          |
| Investment income                        | 150,000               | 125,000               | 145,851             | 20,851                             |
| Other                                    | 19,000                | 67,330                | 55,645              | (11,685)                           |
| <b>Total revenues</b>                    | <u>3,549,611</u>      | <u>3,741,361</u>      | <u>3,763,396</u>    | <u>22,035</u>                      |
| <b>Expenditures:</b>                     |                       |                       |                     |                                    |
| Current:                                 |                       |                       |                     |                                    |
| General government                       | 1,212,318             | 1,232,318             | 1,194,000           | 38,318                             |
| Public services water and sewer services | 590,224               | 605,224               | 499,838             | 105,386                            |
| Recreation and safety                    | 820,620               | 872,120               | 838,827             | 33,293                             |
| Capital outlay                           | 1,289,000             | 2,193,800             | 1,793,965           | 399,835                            |
| Debt service:                            |                       |                       |                     |                                    |
| Principal retirement                     | 641,000               | 641,000               | 458,463             | 182,537                            |
| Interest and fiscal charges              | -                     | -                     | 182,453             | (182,453)                          |
| <b>Total expenditures</b>                | <u>4,553,162</u>      | <u>5,544,462</u>      | <u>4,967,546</u>    | <u>576,916</u>                     |
| <b>Net change in fund balance</b>        | <u>\$ (1,003,551)</u> | <u>\$ (1,803,101)</u> | <u>(1,204,150)</u>  | <u>\$ (554,881)</u>                |
| <b>Fund balance:</b>                     |                       |                       |                     |                                    |
| Beginning of year                        |                       |                       | <u>4,262,688</u>    |                                    |
| End of year                              |                       |                       | <u>\$ 3,058,538</u> |                                    |

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## **OTHER INFORMATION**

**Emerald Bay Service District**  
**Functional Expenditures Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2025**

|   | Original<br>Budget  | Final<br>Budget     | Actual              | Variance<br>Positive<br>(Negative) |
|---|---------------------|---------------------|---------------------|------------------------------------|
| <b>General Government</b>                       |                     |                     |                     |                                    |
| Wages and salaries                              | \$ 123,000          | \$ 123,000          | 119,464             | \$ 3,536                           |
| Payroll taxes                                   | 10,000              | 10,000              | 9,251               | 749                                |
| Workers Compensation insurance                  | 2,000               | 2,000               | 1,784               | 216                                |
| Employee benefits                               | 12,000              | 12,000              | 8,871               | 3,129                              |
| Personnel administrative                        | 3,000               | 3,000               | 2,030               | 970                                |
| Property tax collection fees                    | 7,000               | 7,000               | 8,592               | (1,592)                            |
| Tax administration charge                       | 11,000              | 11,000              | 17,888              | (6,888)                            |
| Administration miscellaneous expense            | 7,000               | 7,000               | 8,781               | (1,781)                            |
| Computer services                               | 10,000              | 10,000              | 6,396               | 3,604                              |
| Insurance                                       | 250,000             | 250,000             | 241,288             | 8,712                              |
| Telephone                                       | 2,500               | 2,500               | 1,642               | 858                                |
| Memberships and conferences                     | 20,000              | 20,000              | 12,826              | 7,174                              |
| Annual Regulatory Permits                       | 15,000              | 15,000              | 10,461              | 4,539                              |
| Management services                             | 173,818             | 173,818             | 161,369             | 12,449                             |
| Office and Land Lease                           | 219,000             | 219,000             | 219,000             | -                                  |
| LAFCO contribution/ expenses                    | 3,000               | 3,000               | 3,057               | (57)                               |
| District Website                                | 10,000              | 10,000              | 1,679               | 8,321                              |
| Accounting fees                                 | 70,000              | 70,000              | 72,421              | (2,421)                            |
| Audit   | 28,000              | 28,000              | 28,000              | -                                  |
| Legal fees                                      | 100,000             | 100,000             | 99,118              | 882                                |
| Professional services - other                   | 130,000             | 150,000             | 157,942             | (7,942)                            |
| Engineer surveys and supplies                   | 1,000               | 1,000               | -                   | 1,000                              |
| Plan Check Fees                                 | 5,000               | 5,000               | 2,140               | 2,860                              |
| Total general government                        | <u>\$ 1,212,318</u> | <u>\$ 1,232,318</u> | <u>\$ 1,194,000</u> | <u>\$ 38,318</u>                   |
| <b>Public Services Water and Sewer Services</b> |                     |                     |                     |                                    |
| Sewage treatment / SOCWA                        | \$ 191,000          | \$ 191,000          | \$ 171,625          | \$ 19,375                          |
| North Coast Interceptor-CLB Operator            | 50,000              | 50,000              | 10,345              | 39,655                             |
| Maintenance equipment                           | 17,000              | 17,000              | -                   | 17,000                             |
| Maintenance vehicle - gas & repairs             | 17,000              | 17,000              | 4,412               | 12,588                             |
| Sewer Lift Stations - Monthly inspections       | 7,000               | 7,000               | 1,220               | 5,780                              |
| Sewer Lift Stations - Electricity               | 17,000              | 17,000              | 14,632              | 2,368                              |
| Sewer Lift Stations - Water                     | 2,000               | 2,000               | 806                 | 1,194                              |
| Supplies and chemicals                          | 5,000               | 5,000               | 568                 | 4,432                              |
| Repairs and maintenance                         | 85,000              | 100,000             | 98,925              | 1,075                              |
| Sewer Pipeline System - Cleaning                | 85,724              | 85,724              | 85,452              | 272                                |
| Restroom Trailers                               | 39,000              | 39,000              | 37,847              | 1,153                              |
| Beach Cleaning                                  | 67,300              | 67,300              | 66,806              | 494                                |
| Water runoff                                    | 7,200               | 7,200               | 7,200               | -                                  |
| Total public services water and sewer services  | <u>\$ 590,224</u>   | <u>\$ 605,224</u>   | <u>\$ 499,838</u>   | <u>\$ 105,386</u>                  |

(Continued)

**Emerald Bay Service District**  
**Functional Expenditures Budgetary Comparison Schedule - General Fund (Continued)**  
**For the Year Ended June 30, 2025**

|   | Original<br>Budget | Final<br>Budget | Actual       | Variance<br>Positive<br>(Negative) |
|---|--------------------|-----------------|--------------|------------------------------------|
| Recreation and Safety                       |                    |                 |              |                                    |
| Lifeguards - Outside Services               | \$ 250,000         | \$ 250,000      | \$ 241,944   | \$ 8,056                           |
| Lifeguards - Pool                           | 75,000             | 75,000          | 59,592       | 15,408                             |
| Fireworks - Outside services                | 60,000             | 60,000          | 49,351       | 10,649                             |
| Fireworks - Outside services Sheriffs       | 55,000             | 55,000          | 30,507       | 24,493                             |
| Fireworks - Barge                           | 45,000             | 45,000          | 39,308       | 5,692                              |
| Fireworks - Chase boat                      | 2,000              | 2,000           | 2,250        | (250)                              |
| Buoy Maintenance                            | -                  | -               | 11,171       | (11,171)                           |
| Water Conservation                          | 1,000              | 1,000           | 262          | 738                                |
| Water Repairs & Maintenance                 | 10,000             | 10,000          | 1,158        | 8,842                              |
| Backflow Testing                            | 2,000              | 2,000           | 2,900        | (900)                              |
| Miscellaneous Water Expense                 | 1,500              | 3,000           | -            | 3,000                              |
| Storm Drain Cleaning                        | 75,620             | 75,620          | 75,778       | (158)                              |
| Emergency Storm Contingency                 | 10,000             | 10,000          | 1,557        | 8,443                              |
| Storm Drain Maintenance Repair              | 10,000             | 10,000          | 8,861        | 1,139                              |
| Street Sweeping Services                    | 37,000             | 37,000          | 37,000       | -                                  |
| Drills and Training                         | 2,000              | 2,000           | 1,063        | 937                                |
| EOC Supplies/Misc                           | 7,000              | 7,000           | 5,120        | 1,880                              |
| Communications                              | 15,000             | 15,000          | 2,318        | 12,682                             |
| Medical                                     | 2,500              | 2,500           | 3,337        | (837)                              |
| AEDs  | 24,000             | 24,000          | 13,811       | 10,189                             |
| Fire Supression                             | -                  | -               | 150,621      | (150,621)                          |
| Fuel Modification/Weed Abatement            | 50,000             | 100,000         | 38,042       | 61,958                             |
| Landscaping Materials - Entrance            | 50,000             | 50,000          | 30,869       | 19,131                             |
| Landscaping Water - Entrance                | 12,000             | 12,000          | 8,007        | 3,993                              |
| Landscaping Maintenance Contract - Entrance | 24,000             | 24,000          | 24,000       | -                                  |
| Total recreation and safety                 | 820,620            | 872,120         | 838,827      | 33,293                             |
| Debt service                                | 641,000            | 641,000         | 640,916      | 84                                 |
| Capital outlay                              | 1,289,000          | 2,193,800       | 1,793,965    | 399,835                            |
| Total expenditures                          | \$ 4,553,162       | \$ 5,544,462    | \$ 4,967,546 | \$ 576,916                         |

(Concluded)

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**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***

**Independent Auditor's Report**

To the Board of Directors  
of Emerald Bay Service District  
Laguna Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (“*Government Auditing Standards*”), the financial statements of the governmental activities and general fund of Emerald Bay Service District (the “District”), as of and for the year ended June 30, 2025, 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 11, 2025.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audits 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 opinion 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. 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 or significant deficiencies may exist that were not identified.

To the Board of Directors  
of Emerald Bay Service District  
Laguna Beach, California  
Page 2

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

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

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

Santa Ana, California  
December 11, 2025