

**EMERALD BAY SERVICE DISTRICT  
ANNUAL FINANCIAL REPORT**

**With Independent Auditor's Report Thereon**

**JUNE 30, 2015**

**EMERALD BAY SERVICE DISTRICT**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2015**

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Craig R. Fechter, CPA, MST  
Scott A. German, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Emerald Bay Service District

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Emerald Bay Service District (the District), as of and for the year ended June 30, 2015, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Directors  
Emerald Bay Service District

*Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of Emerald Bay Service District, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9, and 27 through 29, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Fechter & Company,  
Certified Public Accountants

*Fechter & Company*

Sacramento, California

February 7, 2016

## **EMERALD BAY SERVICE DISTRICT**

### **Management's Discussion and Analysis**

June 30, 2015

As management of the Emerald Bay Service District (District), we offer readers of the statements, this narrative overview and analysis of the financial activities of the District ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which can be found on pages 10 to 15 of this report.

#### **Operational Overview**

The Emerald Bay Service District (District) was organized on November 20, 1961, under the Community Service District Law by resolution of the Board of Supervisors of the County of Orange, California to provide services to the Emerald Bay residents. Currently, the District has been authorized by the Orange County Local Agency Formation Commission to provide sewage, water, fire protection, infrastructure, health and safety, emergency response and other services to the residents of the Emerald Bay Community.

The residents have a long history of volunteerism. The District's elected officials voluntarily serve the community and do not receive compensation, benefits or reimbursement for out of pocket expenses incurred while conducting District business. Under the Orange County Fire Authority the Emerald Bay Fire Station continues to be one of the three remaining level 1 stations that are serviced by volunteers.

The District is a non-enterprise special district, which means that the revenues are derived from property taxes and no fees are charged for the services provided. The sphere of influence for the District is directly related to the Emerald Bay Community Association (EBCA).

The District has one employee, the General Manager, who provides supervision for the day to day operation of the District's facilities. The District contracts the services of a registered professional engineer who provides project plans and equipment specifications. It also contracts for administrative and field support from the EBCA employees and rents office space in the EBCA's Community Center. Additionally, the District 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 \$9,046,158 (net position). Of this amount, \$1,958,730 (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 \$615,849. This increase is attributable to the investment in capital assets and expenditures being under budget and includes an adjustment to the prior year for various prepaid expenses.
- Cash and investments available to the District increased by approximately \$6,725,965 as a result of the District receiving the proceeds of the bonds for capital improvements near year end.

## EMERALD BAY SERVICE DISTRICT

### Management's Discussion and Analysis June 30, 2015

- As of the close of the current fiscal year, the District's Governmental Fund reported an ending fund balance of \$8,928,724, an increase of \$6,636,628 in comparison with the prior year. The increase is a result of the Governmental Fund recording capital outlay as expense in the year of occurrence and recording debt proceeds of \$7,000,000 as an inflow. At June 30, 2015, \$1,928,724 is available for spending at the District's discretion and \$7,000,000 has been committed to completing capital improvement projects, some of which were in process at June 30, 2015.

#### 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 other supplementary information in addition to the basic financial statements.

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

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

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

The government-wide financial statements can be found on pages 10 and 11 of this report.

**Fund financial statements** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

## EMERALD BAY SERVICE DISTRICT

### Management's Discussion and Analysis

June 30, 2015

**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 statement has been provided for the general fund to demonstrate compliance with this budget and the subsequent approved budget adjustments.

The fund financial statements can be found on pages 12 to 15 of this report.

**Notes to the financial statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 16 to 26 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 \$9,046,138 at the close of the most recent fiscal year.

Approximately 79% percent of the District's net position reflects its investment in capital assets (e.g., infrastructure and equipment). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**EMERALD BAY SERVICE DISTRICT**

**Management's Discussion and Analysis  
June 30, 2015**

**Emerald Bay Service District  
Net Assets – Governmental Activities**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Assets		
Current and other assets	\$ 9,414,631	\$ 2,713,162
Capital assets	<u>7,117,434</u>	<u>6,186,234</u>
Total Assets	<u>\$ 16,532,065</u>	<u>\$ 8,899,396</u>
Current liabilities	\$ 703,944	\$ 421,066
Noncurrent liabilities	<u>6,781,963</u>	<u>48,021</u>
Total Liabilities	<u>7,485,907</u>	<u>469,087</u>
Net Position:		
Invested in capital assets	87,428	6,138,213
Committed	7,000,000	-
Unrestricted	<u>1,958,730</u>	<u>2,292,096</u>
Total Net Position	<u>\$ 9,046,158</u>	<u>\$ 8,430,309</u>

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

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Change</u>
General revenues:			
Property tax	\$ 1,944,417	\$ 1,809,157	\$ 135,260
Investment earnings	9,354	4,537	4,817
Miscellaneous	<u>26,145</u>	<u>40,632</u>	<u>(14,487)</u>
Total revenues	<u>1,979,916</u>	<u>1,854,326</u>	<u>125,590</u>
Expenses:			
General government	769,514	789,759	(20,245)
Public services	329,916	236,361	93,555
Recreation and safety	<u>264,637</u>	<u>199,665</u>	<u>64,972</u>
Total expenses	<u>1,364,067</u>	<u>1,228,901</u>	<u>138,282</u>
Change in net position	615,849	625,425	(9,576)
Net position – beginning of year	<u>8,430,309</u>	<u>7,771,319</u>	<u>658,990</u>
Prior period adjustment	-	33,565	(33,565)
Restated net position – beginning of year	<u>8,430,309</u>	<u>7,804,884</u>	<u>625,425</u>
Net position – end of year	<u>\$ 9,046,158</u>	<u>\$ 8,430,309</u>	<u>\$ 615,849</u>



## EMERALD BAY SERVICE DISTRICT

### Management's Discussion and Analysis

June 30, 2015

#### 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, 2015, the District's governmental fund reported an ending balance of \$8,928,724, an increase of \$6,636,628 in comparison with the prior year. Unassigned fund balance of \$1,928,724 is available for spending at the District's discretion. \$7,000,000 is assigned to the completion of the Main Gate Safety Improvement Project as well as other water, sewer and storm drain upgrades and improvements as required by the bond agreement.

The fund balance of the District's general fund increased by \$6,636,628 during the current fiscal year this increase can be compared to a decrease of \$199,082 in the prior fiscal year. Key factors in the changes are as follows:

- Capital expenditures for infrastructure and equipment decreased from \$1,178,781 in the prior fiscal year to \$1,169,961 in the current fiscal year. On April 7, 2015 the District issued bonds in the amount of \$7,000,000 which incurred \$55,679 of interest through June 30, 2015. The interest was capitalized as part of the Main Gate Safety Improvement Project as well as several water, sewer and storm drain infrastructure projects.
- Interest earnings and change in fair value of investments increased by \$2,580. This increase is primarily the result of a \$7,000,000 private placement bond issue completed in April 2015 and deposited in the State of California Local Agency Investment Fund.
- As required by the Bond Indenture Agreement, the District has committed the full amount borrowed to the continued planning and construction related to the Main Gate Safety Improvement Project and additional water, sewer and storm drains infrastructure projects, some of which have not yet been identified.

#### 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% increase in property taxes when developing and approving the original budget approved in June 2014. Subsequently the Board approved budget adjustments in January 2015 and April 2015 to more accurately project the actual revenue. Actual revenues exceeded the Final Budget by \$1,373 or .07%.

## **EMERALD BAY SERVICE DISTRICT**

### **Management's Discussion and Analysis June 30, 2015**

- General government expenditures were \$37,599 or 6.4% less than the Final Budget; Public services, water and sewer services expenditures were \$67,633 or 17.8% less than the Final Budget; and Recreation and safety expenditures were \$10,582 or 3.4% less than the Final Budget. In summary the total operating expenditures were under budget by \$115,804 or 9.1% below the total Final Board Approved Budget.
- Capital expenditures for infrastructure and equipment were \$1,169,961 or \$372,584 less than the Final Budget, due to projects being deferred or in process. Any excess appropriations were carried forward to the Fiscal Year 2015-16 Capital Improvement Budget.

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

**Capital Assets** - The District spent \$1,169,961 on infrastructure assets and equipment.

Additional information on the District's capital assets can be found in Note 3 on page 23 of the notes to the financial statements.

**Long-term debt** - At the end of the current fiscal year, the District had two loans related to the purchase of equipment with an outstanding balance of \$30,006 at June 30, 2015. In addition, the District issued \$7,000,000 in bond financing for the specific purpose of completing the Main Gate Safety Improvement Project and other water and sewer improvements.

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

The Mihaylo College of Business and Economics at the California State University Fullerton reported that Orange County real estate has seen remarkable improvement in home values over the last two years. In August 2014 the median Orange County home price was \$642,000. Although the median Orange County home price is still 11% below the July 2007 peak of \$720,000 it is at the same level as May 2005.

Assessed property values continue to increase for the addresses included within the District's property tax allocations. Since 2011 the County of Orange, including Emerald Bay, has seen a steady appreciation in real estate pricing, which in turn, has a direct effect on assessed valuations of properties within the District. Consequently, the District has experienced a 16.1% increase in assessed values from Fiscal Year Ended June 30, 2011 to the current Fiscal Year Ended June 30, 2015.

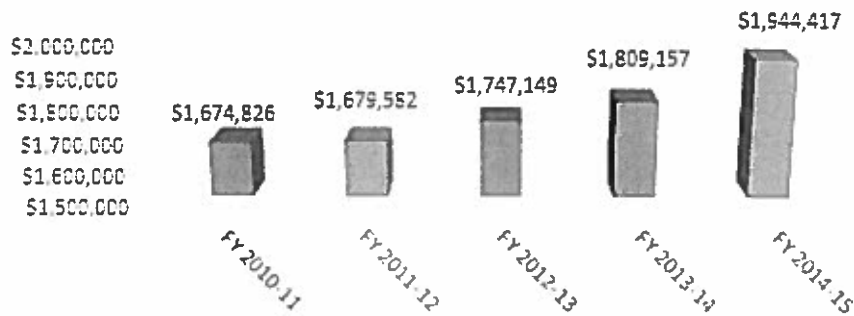
## EMERALD BAY SERVICE DISTRICT

### Management's Discussion and Analysis

June 30, 2015

The District's Board of Directors and staff relied on this information during the development of the Fiscal Year 2015-16 annual budget. Increases in estimated property taxes remain conservative at 2%.

### EMERALD BAY SERVICE DISTRICT PROPERTY TAX REVENUES FY 2010-11 TO FY 2014-15



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, 600 Emerald Bay, Laguna Beach, CA 92651.

**EMERALD BAY SERVICE DISTRICT**  
**Statement of Net Position**  
**June 30, 2015**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 9,275,267
Taxes receivable	30,882
Due from Emerald Bay Community Association	-
Interest receivable	5,630
Other assets	102,852
Capital assets, net	<u>7,117,434</u>
<b>Total Assets</b>	<b><u>\$ 16,532,065</u></b>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 423,005
Accrued payroll liabilities	-
Due to Emerald Bay Community Association	32,896
Current portion notes and bonds payable	258,939
<b>Total Current Liabilities</b>	<u>714,840</u>
Non-current portion bonds payable	6,751,957
Non-current portion notes payable	<u>19,110</u>
<b>Total liabilities</b>	7,485,907
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	87,428
Committed	7,000,000
Unrestricted	<u>1,958,730</u>
<b>Total Net Position</b>	<b><u>\$ 9,046,158</u></b>

The accompanying notes are an integral part of these financial statements

**EMERALD BAY SERVICE DISTRICT**  
**Statement of Activities**  
**For the Year Ended June 30, 2015**

Functions/Programs	Expenses	Net (Expenses) and Changes in Net Position
Governmental activities:		
General government	\$ 769,514	\$ (769,514)
Public services water and sewer services	329,916	(329,916)
Recreation and safety	264,637	(264,637)
Total governmental activities	\$ 1,364,067	(1,364,067)
General revenues:		
Property taxes		1,928,336
Other tax revenues		16,081
Investment income		9,354
Gain on disposal of assets		2,322
Miscellaneous		23,823
Total general revenues		1,979,916
Changes in net position		615,849
Net position - beginning of year		8,430,309
Net position - end of year		\$ 9,046,158

The accompanying notes are an integral part of these financial statements

**EMERALD BAY SERVICE DISTRICT**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2015**

	<u>General</u>
<b>ASSETS</b>	
Cash and investments	\$ 9,275,267
Taxes receivable	30,882
Other assets	102,852
Interest receivable	5,630
<b>Total Assets</b>	<b>\$ 9,414,631</b>
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities:	
Accounts payable and accrued expenses	\$ 423,005
Accrued payroll liabilities	-
Notes payable	30,006
Due to Emerald Bay Community Association	32,896
<b>Total Liabilities</b>	<b>485,907</b>
Fund Balance:	
Committed	7,000,000
Unassigned	1,928,724
	<b>8,928,724</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 9,414,631</b>

The accompanying notes are an integral part of these financial statements

**EMERALD BAY SERVICE DISTRICT**  
**Reconciliation of the Balance Sheet - Governmental Fund**  
**to the Statement of Net Position**  
**June 30, 2015**

Fund balance for Governmental Funds	\$ 8,928,724
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital assets, net of depreciation	7,117,434
Debt does not require current resources and is excluded from the Government Fund Financial Statements	<u>(7,000,000)</u>
Net position of Governmental Activities	<u>\$ 9,046,158</u>

The accompanying notes are an integral part of these financial statements

**EMERALD BAY SERVICE DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Fund**  
**For the Year Ended June 30, 2015**

	<u>General</u>
<b>REVENUES</b>	
Taxes	\$ 1,928,336
Other taxes and fees	16,081
Investment earnings	9,354
Gain on disposal of assets	4,042
Proceeds from issuance of debt	7,000,000
Other	23,823
Total revenues	8,981,636
<b>EXPENDITURES</b>	
General government	550,252
Public services water and sewer services	312,137
Recreation and safety	312,658
Debt service	-
Capital outlay	1,169,961
Total expenditures	2,345,008
Net change in fund balance	6,636,628
Fund balance - beginning of year	2,292,096
Fund balance - end of year	\$ 8,928,724

The accompanying notes are an integral part of these financial statements



**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, 2015**

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

Net change in fund balance - governmental fund: \$ 6,636,628

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. The following is the activity related to capital assets

Additions to capital assets	1,169,961
Capitalized interest	55,679
Depreciation expense	(292,720)

Proceeds from debt are excluded from revenue in the governmental statements	(7,000,000)
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Debt service payments are excluded from expenditures in the governmental statements	46,301
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Change in net position of governmental activities	<u>\$ 615,849</u>
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The accompanying notes are an integral part of these financial statements

## EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements  
June 30, 2015

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The Emerald Bay Service District (District) was organized on November 20, 1961, under the Community Service District Law to provide services to the residents living in the unincorporated area of Orange 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 sewage, water, infrastructure, health and safety, emergency response (CERT) and other services to the Emerald Bay Community.

The District is governed by a five member Board of Directors. The members of the Board of Directors of Emerald Bay Service District serve without compensation, benefits or reimbursement of out of pocket expenses.

#### B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported, instead, as general revenues.

Separate financial statements are provided for the governmental fund.

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements  
June 30, 2015

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current 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 generally recorded when a liability is incurred, as under accrual accounting.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From this fund are paid the general operating expenses not paid through other funds.

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

### D. Assets, Liabilities, and Net Position or Fund Equity

#### Capital Assets

Capital assets, which include only infrastructure and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. As a phase 3 government under GASB Statement 34, the District has elected to report only major general infrastructure assets acquired subsequent to June 30, 2003. Such assets are recorded at historical cost, or estimated historical cost, if purchased or constructed. Donated assets are valued at the fair value of the assets on the date on which they were contributed. 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.

**EMERALD BAY SERVICE DISTRICT**

Notes to Basic Financial Statements  
June 30, 2015

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Assets, Liabilities, and Net Position or Fund Equity (continued)**

Capital Assets – continued

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

	<u>Years</u>
Infrastructure	15 - 30
Equipment	3 - 5

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 in September. 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.

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

Investments

Investments are stated at fair value based on quoted market prices (the value at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale).

Fund Equity

Effective July 1, 2013, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds is classified as follows:

## EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements  
June 30, 2015

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### D. Assets, Liabilities, and Net Position or Fund Equity (continued)

##### Fund Equity (continued)

- **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 that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- **Committed** – includes amounts that can only be used for the specific purposes determined by a formal action of the District’s highest level of decision-making authority, the District’s Board of Directors (Board). Commitments may be changed or lifted only by the Board taking the same formal action that imposed the constraint originally (for example: resolution).
- **Assigned** – comprises amounts intended to be used by the Board for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the Board or (b) a body (for example: a budget or finance committee) or official to which the Board has delegated the authority to assign amounts to be used for specific purposes.
- **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 nonspendable, restricted or assigned fund balances. The District has \$7,000,000 committed to complete the Main Gate Safety Improvement Project and other storm drain, sewer and water infrastructure improvements, some of which have not yet been identified. 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.

## EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements  
June 30, 2015

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### D. Assets, Liabilities, and Net Position or Fund Equity (continued)

##### Classification of Net Position

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

- Invested in capital assets, net of related debt – This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position – This component of net position consists of constraints placed on net assets use through external restrictions imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The District does not currently have any restricted net position.
- Unrestricted net position – This component of net position represents the unencumbered net position and consists of fund equity that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

##### Implementation of New Accounting Principles

- The District adopted the provisions of GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. It also identifies net position as the residual of all other elements presented in a statement of financial position, or the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. As implied above, GASB 63 changes the previous classification of net assets to net position, and consequently, the statement of net assets to the statement of net position. The District had no deferred inflows or outflows of resources as of June 30, 2015

##### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

**EMERALD BAY SERVICE DISTRICT**

Notes to Basic Financial Statements  
June 30, 2015

**NOTE 2: CASH AND INVESTMENTS**

Cash and investments at June 30, 2015, consist of the following:

Deposits with financial institutions	516,772
Short term money market	255,601
Local Agency Investment Fund	8,502,894
 Total cash and investments	 <u>\$ 9,275,267</u>

Authorized Investments

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

Investment Types Authorized by State Law	Authorized By Investment Policy	*Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment In One Issue
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	180 days	15%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	15%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	None	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other Investment Pools)	No	N/A	None	None

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

## EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements  
June 30, 2015

### NOTE 2: CASH AND INVESTMENTS (continued)

#### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment by maturity.

<u>Investment Type</u>	<u>Total</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Money market	\$ 255,601	\$255,601	-	-

#### Disclosures Relating to Credit Risk

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. All U.S. Treasury Obligations held by the District are exempt from this disclosure, because they are backed by the full faith and credit of the United States.

However, on August 5, 2011, Standard & Poor's lowered its long-term credit rating on debt of the U.S. government from AAA to AA+. That action affected Standard & Poor's view of U.S. public finance debt instruments that are directly or indirectly backed by the U.S. government. As a result, on August 8, 2011, Standard & Poor's lowered its long-term credit ratings of U.S. government-sponsored enterprises and public debt issues that have credit enhancement guarantees by those government-sponsored enterprises to AA+. These credit downgrades relate to the credit risk associated with the District's investment in U.S. Treasury Obligations.

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under



**EMERALD BAY SERVICE DISTRICT**

Notes to Basic Financial Statements  
June 30, 2015

**NOTE 2: CASH AND INVESTMENTS (continued)**

state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District deposits are not exposed to custodial credit risk at June 30, 2015.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to the District's indirect investment in securities.

**Custodial Credit Risk**

The District investments in marketable securities are not exposed to custodial credit risk at June 30, 2015.

**NOTE 3: CAPITAL ASSETS**

A summary of changes in capital assets for the District's governmental activities for the year ended June 30, 2015, is as follows.

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>
Capital assets, not being depreciated:				
Construction in progress	\$ <u>1,423,899</u>	\$ <u>1,031,760</u>	<u>(87,200)</u>	\$ <u>2,368,459</u>
Capital assets, being depreciated				
Water	1,019,674	168,521	-	1,188,195
Sewer	2,169,676	89,728	-	2,259,404
General	2,572,999	22,831	(27,528)	2,568,302
Equipment	<u>156,807</u>	<u>-</u>	<u>-</u>	<u>156,807</u>
Total capital assets, being depreciated	<u>5,919,156</u>	<u>193,880</u>	<u>(27,528)</u>	<u>6,172,708</u>
Less accumulated depreciation:				
Net assets being depreciated	<u>(1,156,821)</u>	<u>(292,720)</u>	<u>(25,808)</u>	<u>(1,423,733)</u>
	<u>4,762,335</u>	<u>(11,640)</u>	<u>1,720</u>	<u>4,748,975</u>
Total capital assets, net	\$ <u>6,186,234</u>	\$ <u>1,020,120</u>	\$ <u>(88,920)</u>	\$ <u>7,117,434</u>

Depreciation expense of \$292,720 was charged to the public services functions. The District capitalized interest of \$55,679 as part of its Main Gate Safety Improvement Project.

**EMERALD BAY SERVICE DISTRICT**

Notes to Basic Financial Statements  
June 30, 2015

**NOTE 4: NOTE PAYABLE**

The District has the following notes payable outstanding at June 30, 2015:

Note payable with an original principal amount of \$43,922. The note bears interest at 4% and is payable in monthly principal and interest payments of \$993 through February 2018.

\$ 30,006

The terms of the debt listed above require principal and interest payments as follows:

Fiscal Year Ended June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 10,846	\$ 1,021	\$ 11,867
2017	11,347	569	11,916
2018	7,813	120	7,933
	<u>\$ 30,006</u>	<u>\$ 1,710</u>	<u>\$ 31,716</u>

**NOTE 5: 2014-15 BONDS**

The District issued bonds with the purpose of financing the Main Gate Safety Improvement Project and other storm drain, sewer and water infrastructure improvements. The Bonds have the following terms:

Original issue \$ 7,000,000  
Interest Rate 3.45%  
Required principal and interest payment \$ 243,711  
Payment due dates April 7  
October 7

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
June 30, 2016	\$ 248,043	\$ 239,379	\$ 487,422
June 30, 2017	256,674	230,748	487,422
June 30, 2018	265,606	221,816	487,422
June 30, 2019	275,848	211,574	487,722
June 30, 2020	284,412	203,010	487,422
Thereafter through 2035	<u>5,669,417</u>	<u>1,641,909</u>	<u>7,311,326</u>
	<u>\$ 7,000,000</u>	<u>\$ 2,748,436</u>	<u>\$ 9,748,436</u>

## EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements  
June 30, 2015

### NOTE 6: OTHER INFORMATION

#### Insurance Coverage

The District is exposed to various risks of loss related to property and general liability. These risks are addressed through commercial insurance.

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. Its purpose is to provide a full risk management program for California local governments. The District pays an annual premium to SDRMA for general and auto liability, errors and omissions, property and employee dishonesty insurance coverage. The District's annual premium is based on its pro-rata share of charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the SDRMA.

The District's coverage and corresponding deductibles are as follows

The District is subject to various deductible amounts in addition to payment of premiums for insurance coverage. The total risk financing limit is \$2 million combined, with a single limit of \$1 million per occurrence, subject to a \$5,000 deductible per occurrence for general liability and property damage.

Settled claims have not exceeded any of the District's coverage amounts in the last three fiscal years, and there were no reductions in the coverage during the year ended June 30, 2015.

#### Related Party Transactions

The Board of Directors of the Emerald Bay Service District (EBSB) entered into a Management Services Agreement (approved and adopted at a Special Meeting of the Board of Directors on July 16, 2013) with the Emerald Bay Community Association (EBCA), a legally separate, but geographically related entity. The term of the agreement is to December 31, 2016 with yearly extensions. Fees are charged at a fixed rate of \$8,680 per month (office rent administrative expenses and lease of Association property upon which the District facilities are located), plus specific percentages of designated employees of EBCA.

## EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements  
June 30, 2015

### NOTE 6: OTHER INFORMATION (continued)

#### Affiliated Organizations

As indicated in Note 1(a) *Reporting Entity*, 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. For the fiscal year ended June 30, 2014, District residents were charged approximately \$800,000 for their consumption of 286 acre feet (approx. 93.2 million gallons) of fresh water. Furthermore, the Orange County Fire Authority (OCFA) currently provides fire protection services to District residents. For the fiscal year ended June 30, 2014, the County apportioned and paid to OCFA approximately \$1.5 million in property taxes to provide these services.

### NOTE 6: FIRE STATION LEASE

In exchange for receiving fire protection services, 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 is for a term of 5 years with 10 automatic 5 year renewal periods up to 55 years through 2068.

### NOTE 7: SUBSEQUENT EVENTS

The District made and entered into a Memorandum of Understanding between the District and the Emerald Bay Community Association that determined the responsibilities of both organizations in regards to the Main Gate Safety Improvement Project. The District has agreed to provide 80% of the funding for the planning and engineering costs of the project retroactively to July 1, 2014 and 100% of the funding for the construction related to the roadway, sewer and water infrastructure. The District has also agreed to compensate the Emerald Bay Community Association in the amount of \$943,000 for the appraised value of the loss of use of a portion of Swanson Park, as well as permanent easements that have been granted to the District to maintain the road, water and sewer infrastructure.

The District has evaluated subsequent events through February 7, 2016 the date the financial statements were available for release.

**REQUIRED SUPPLEMENTARY INFORMATION**

**EMERALD BAY SERVICE DISTRICT**  
**General Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
<b>Revenues</b>				
Taxes	\$ 1,781,745	\$ 1,931,844	\$ 1,928,336	\$ (3,508)
Interest earnings	7,000	7,000	9,354	2,354
Net decrease in the fair value of investments	21,200	21,296	23,823	2,527
<b>Total revenues</b>	<u>1,809,945</u>	<u>1,960,140</u>	<u>1,961,513</u>	<u>1,373</u>
<b>Expenditures</b>				
Current:				
General government	582,236	586,858	550,252	(36,606)
Public services water and sewer services	297,000	379,800	312,137	(67,663)
Recreation and safety	293,000	310,000	312,658	2,658
Capital expenditures	447,000	1,542,545	1,169,961	(372,584)
<b>Total expenditures</b>	<u>1,619,236</u>	<u>2,819,203</u>	<u>2,345,008</u>	<u>(474,195)</u>
<b>Net change in fund balance</b>	<u>190,709</u>	<u>(859,063)</u>	<u>(383,495)</u>	<u>475,568</u>
<b>Fund balance - beginning of year</b>	<u>2,292,096</u>	<u>2,292,096</u>	<u>2,292,096</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 2,482,805</u>	<u>\$ 1,433,033</u>	<u>\$ 1,908,601</u>	<u>\$ 475,568</u>

See Accompanying Notes to Required Supplementary Information

**EMERALD BAY SERVICE DISTRICT**  
**General Fund**  
**Functional Expenditures Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2015**

	Original Budget	Final Budget	Actual	Variance Over (Under)
<b>General government</b>				
Staff salary	\$ 90,000	\$ 92,250	\$ 90,000	(2,250)
Payrol taxes	7,000	7,172	7,300	128
Retirement contributions	-	-	-	-
Workers compensation	3,000	3,000	169	(2,831)
Employee benefits	4,000	4,000	3,055	(945)
Personnel administration	4,000	4,000	822	(3,178)
Property tax collection fees	5,000	6,000	4,233	(1,767)
Property tax collection fees - water	-	-	953	953
County of Orange - tax administration charge	16,000	16,000	14,378	(1,622)
Admininstration miscellaneous expense	5,000	5,000	2,717	(2,283)
Computer services	1,000	1,000	169	(831)
Insurance	82,000	62,000	63,454	1,454
Telephone	4,000	4,000	1,415	(2,585)
Memberships and contributions	6,000	10,000	6,236	(3,764)
Management services	248,500	248,500	229,437	(19,063)
LAFCO annual contribution	10,000	10,000	8,562	(1,438)
Election expense	10,000	-	-	-
Professional services - engineering	18,000	3,000	-	(3,000)
District website	2,500	2,500	1,072	(1,428)
Interest expense	1,736	2,736	2,042	(694)
Accounting fees	18,500	18,500	23,780	5,280
Audit	8,000	7,200	7,200	-
Legal fees	31,000	73,000	74,634	1,634
Professional services - engineering	6,000	6,000	6,974	974
Enginuer surveys and expenses	1,000	1,000	1,650	650
<b>Total general government</b>	<b>582,236</b>	<b>586,858</b>	<b>550,252</b>	<b>(36,606)</b>
<b>Public services water and sewer services</b>				
Sewage treatment services	111,000	111,000	99,247	(11,753)
North Coast Interceptor	20,000	35,300	35,255	(45)
Maintenance Equipment	12,000	12,000	2,302	(9,698)
Maintenance vehicle fuel and repairs	12,000	12,000	7,996	(4,004)
Sewer Lift Station -Monthly Inspections	6,000	6,000	1,829	(4,171)
Sewer lift station -electricity	13,000	13,000	8,143	(4,857)
Sewer lift Station - Electricity	2,000	2,000	793	(1,207)
Supplies and chemicals	2,000	2,000	4,711	2,711
Sewer repair and maintenance	20,000	45,000	49,647	4,647
Sewer pipeline system cleaning	47,000	47,000	45,111	(1,889)
Water and sewer system condition assessment	50,000	50,000	15,026	(34,974)
Water conservation	2,000	2,000	-	(2,000)
Miscellaneous water expense	-	42,500	42,077	(423)
<b>Total public services water and sewer services</b>	<b>297,000</b>	<b>379,800</b>	<b>312,137</b>	<b>(67,663)</b>
<b>Recreation and safety</b>				
Beach Lifeguards	110,000	110,000	112,498	2,498
Fireworks	37,000	37,000	38,513	1,513
Fireworks - Barge	20,000	20,000	19,886	(114)
Fireworks - Chase Boat	1,000	1,000	850	(150)
Fuel mod./weed abatement	20,000	36,000	33,665	(2,335)
Emergency exense and repairs	-	-	3,398	3,398
Emergency Storm Contingency	-	-	3,552	3,552
Communications	-	-	5,836	5,836
Emergency Preparation and CERT	-	-	454	454
Storm drain cleaning	42,000	42,000	41,617	(383)
Operation and Maintenance	40,000	40,000	48,021	8,021
Drills and Training	5,000	5,000	164	(4,836)
EOC Supplies/Miscellaneous	2,000	3,000	4,204	1,204
CERT Communications	10,000	10,000	-	(10,000)
Miscellanous/CERT Expense	6,000	6,000	-	(6,000)
<b>Total Recreation and safety</b>	<b>293,000</b>	<b>310,000</b>	<b>312,658</b>	<b>2,658</b>
<b>Debt service</b>				
Capital outlay	447,000	1,542,545	1,169,961	(372,584)
<b>Total expenditures</b>	<b>\$ 1,619,236</b>	<b>\$2,819,203</b>	<b>\$ 2,345,008</b>	<b>\$ 725,772</b>

See Accompanying Notes to Required Supplementary Information

## **EMERALD BAY SERVICE DISTRICT**

Notes to Required Supplementary Information  
June 30, 2015

### **NOTE 1: BUDGETS AND BUDGETARY ACCOUNTING**

The District's budget for the General Fund is prepared annually and approved and adopted in accordance with the provisions of the Board of Directors. The level at which expenditures may not legally exceed appropriations is the financial statement line item. Any deficiency of budgeted revenues compared to budgeted expenditures is financed from beginning unrestricted fund balance.

### **NOTE 2: APPROPRIATIONS AND ENCUMBRANCES**

Unexpended and unencumbered appropriations of the governmental fund automatically lapse at the end of the fiscal year for noncapital projects.