

**EMERALD BAY SERVICE DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED**

JUNE 30, 2012

EMERALD BAY SERVICE DISTRICT

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2012**

TABLE OF CONTENTS

Financial Section:

Independent Auditor's Report.....1-2
Management Discussion and Analysis.....3-7

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets..... 8
Statement of Activities..... 9

Fund Financial Statements:

Balance Sheet – Governmental Fund..... 10
Reconciliation of the Balance Sheet - Governmental Fund
to the Statement of Net Assets..... 11
Statement of Revenues, Expenditures and Changes in Fund
Balance – Governmental Fund..... 12
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of the Governmental Fund to the
Statement of Activities..... 13

Notes to Basic Financial Statements.....14-22

Required Supplementary Information (Unaudited):

General Fund – Budgetary Comparison Schedule23-24
Notes to Required Supplementary Information25



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 the major fund of the Emerald Bay Service District (District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and other required supplementary information identified in the accompanying table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Directors
Emerald Bay Service District

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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


Sacramento, California
May 10, 2013

EMERALD BAY SERVICE DISTRICT

Management's Discussion and Analysis June 30, 2012

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, 2012. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which can be found on pages 8 to 13 of this report.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$7,176,614 (net assets). Of this amount, \$2,671,613 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$508,379. This increase is attributable to the investment in capital assets and expenditures under budget.
- As of the close of the current fiscal year, the District's governmental fund reported an ending fund balance of \$2,693,073, a decrease of \$45,396 in comparison with the prior year. The decrease is a result of the governmental fund recording capital outlay as expense in the year of occurrence. This entire amount is available for spending at the government's discretion (unassigned fund balance).

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 assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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).

EMERALD BAY SERVICE DISTRICT

Management's Discussion and Analysis June 30, 2012

The government-wide financial statements can be found on pages 8 and 9 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 statement has been provided for the general fund to demonstrate compliance with this budget.

The fund financial statements can be found on pages 10 to 13 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 14 to 22 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$7,176,614 at the close of the most recent fiscal year.

Approximately 63% percent of the District's net assets reflect 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, 2012

Emerald Bay Service District Net Assets – Governmental Activities

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Assets		
Current and other assets	\$ 2,818,267	\$ 2,855,407
Capital assets	<u>4,505,001</u>	<u>3,929,766</u>
Total Assets	<u>\$ 7,323,268</u>	<u>\$ 6,785,173</u>
Current liabilities		
Total Liabilities	<u>\$ 146,654</u>	<u>\$ 116,938</u>
Net Assets:		
Invested in capital assets	4,505,001	3,929,766
Unrestricted	<u>2,671,613</u>	<u>2,738,469</u>
Total Net Assets	<u>\$ 7,176,614</u>	<u>\$ 6,668,235</u>

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

Emerald Bay Service District Statement of Activities – Governmental Activities

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Change</u>
General revenues:			
Property tax	\$ 1,679,582	\$ 1,674,826	\$ 4,756
Investment earnings	7,429	20,512	(13,083)
Miscellaneous	<u>39,038</u>	<u>15,930</u>	<u>23,108</u>
Total revenues	<u>1,726,049</u>	<u>1,711,268</u>	14,781
Expenses:			
General government	727,239	617,768	109,471
Public services	311,297	438,695	(127,398)
Recreation and safety	<u>179,134</u>	<u>157,120</u>	22,014
Total expenses	<u>1,217,670</u>	<u>1,213,583</u>	
Change in net assets	508,379	497,685	
Net assets – beginning of year	<u>6,668,235</u>	<u>6,170,550</u>	
Net assets – end of year	<u>\$ 7,176,614</u>	<u>\$ 6,668,235</u>	

The District's net assets increased by \$508,379 during the fiscal year. The increase is primarily due to cancellation of the security contract with a related entity and lower sewer service fees.

EMERALD BAY SERVICE DISTRICT

Management's Discussion and Analysis June 30, 2012

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, 2012, the District's governmental fund reported an ending balance of \$2,693,073, a decrease of \$45,396 in comparison with the prior year. This entire amount constitutes unassigned fund balance, which is available for spending at the District's discretion.

The fund balance of the District's general fund decreased by \$45,396 during the current fiscal year, as compared to a decrease of \$28,414 in the prior fiscal year. Key factors in the changes are as follows:

- Capital expenditures for infrastructure and equipment increased from \$702,444 in prior year to \$762,181 in the current fiscal year.
- Interest earnings and change in fair value of investments decreased by \$13,083. This decrease is due to general decline in market value of treasury notes and prevailing money market interest rates.

General Fund Budgetary Highlights

There were no differences between the original budget and the final budget. Current year revenues and expenditures were less than budgeted revenues and expenditures in the following areas:

- Property taxes were less than budgeted, primarily due to general market decline in the real estate market.
- Interest earnings were less than budgeted revenues, primarily due to a general decline in money market rates paid by financial institutions. The change in fair value of investments is not budgeted, though there was a decline in the market value of held treasury notes during the fiscal year.
- Capital expenditures for infrastructure and equipment were less than budgeted, as anticipated expenses for capital expenses were either cancelled or deferred to later years.

Capital Asset and Debt Administration

Capital Assets - The District spent \$762,181 on infrastructure assets and equipment.

Additional information on the District's capital assets can be found in Note 3 on page 21 of this report.

EMERALD BAY SERVICE DISTRICT

Management's Discussion and Analysis June 30, 2012

Long-term debt - At the end of the current fiscal year, the District had one loan related to the purchase of a pickup truck with an outstanding balance of \$21,460 at June 30, 2012.

Economic Factors and Next Year's Budgets and Rates

The assumption used in the fiscal year 2012-13 budget was that property valuation would have modest decline of approximately 2%.

The above factor was considered in preparing the District's budget for fiscal year 2012-13.

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 Assets
June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 2,764,440
Taxes receivable	42,046
Interest receivable	11,781
Capital assets, net	<u>4,505,001</u>
Total Assets	<u><u>\$ 7,323,268</u></u>
LIABILITIES	
Accounts payable	\$ 90,529
Due to Emerald Bay Community Association	34,665
Note payable	<u>21,460</u>
Total Liabilities	<u>146,654</u>
NET ASSETS	
Invested in capital assets	4,505,001
Unrestricted	<u>2,671,613</u>
Total Net Assets	<u><u>\$ 7,176,614</u></u>

The accompanying notes are an integral part of these financial statements

EMERALD BAY SERVICE DISTRICT
Statement of Activities
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expenses) and Changes in Net Assets</u>
Governmental activities:		
General government	\$ 727,239	\$ (727,239)
Public services	311,297	(311,297)
Recreation and safety	179,134	(179,134)
Total governmental activities	<u>\$ 1,217,670</u>	<u>(1,217,670)</u>
General revenues:		
Property taxes		1,679,582
Investment income		7,429
Miscellaneous		39,038
Total general revenues		1,726,049
Changes in net assets		508,379
Net assets - beginning of year		6,668,235
Net assets - end of year		<u>\$ 7,176,614</u>

The accompanying notes are an integral part of these financial statements

EMERALD BAY SERVICE DISTRICT
Balance Sheet
Governmental Fund
June 30, 2012

	<u>General</u>
ASSETS	
Cash and investments	\$ 2,764,440
Taxes receivable	42,046
Interest receivable	<u>11,781</u>
Total Assets	<u><u>\$ 2,818,267</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 90,529
Due to Emerald Bay Community Association	<u>34,665</u>
Total Liabilities	<u>125,194</u>
Fund Balance:	
Unassigned	<u>2,693,073</u>
Total Liabilities and Fund Balance	<u><u>\$ 2,818,267</u></u>

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 Assets
June 30, 2012

Fund balance for governmental funds	\$ 2,693,073
Amounts reported for governmental activities in the statement of net assets 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	4,505,001
Debt does not require current resources and is excluded from the Governmental statements	<u>(21,460)</u>
Net assets of governmental activities	<u>\$ 7,176,614</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, 2012

	<u>General</u>
REVENUES	
Taxes	\$ 1,679,582
Investment earnings	7,429
Other	39,038
Total revenues	1,726,049
EXPENDITURES	
Current:	
General government	527,133
Public services	302,997
Recreation and safety	179,134
Capital outlay	762,181
Total expenditures	1,771,445
Net change in fund balance	(45,396)
Fund balance - beginning of year	2,738,469
Fund balance - end of year	\$ 2,693,073

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, 2012

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

Net change in fund balance - governmental fund:	\$ (45,396)
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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	762,181
Depreciation expense	(186,946)

Debt does not require current resources and is excluded from the Governmental statements	(21,460)
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Change in net assets of governmental activities	<hr style="border: 0.5px solid black;"/> <u>\$ 508,379</u>
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EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements
June 30, 2012

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, for the purpose of fresh water supply, sewage and storm water collection and disposal, water runoff management, fire protection and community emergency response protection (CERT), public recreation, and police protection to the residents of the Emerald Bay Community, County of Orange, California. 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. In February 1969, the power and purpose of this District were amended to include the conversion of existing overhead electric and communication facilities to underground locations.

The District is governed by a five member Board of Directors and officers.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets 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, 2012

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 Assets or 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, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Assets or 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, 2010, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, to 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, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Assets or 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, committed or assigned fund balance. 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, and unassigned.

EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Classification of Net Assets

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

- Invested in capital assets, net of related debt – This component of net assets 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. The District does not currently have any debt related to capital assets.
- Restricted net assets – This component of net assets consists of constraints placed on net assets use through external constraints 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 assets.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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.

NOTE 2: CASH AND INVESTMENTS

Cash and investments at June 30, 2012, consist of the following:

Deposits with financial institutions	\$	1,840,421
U.S. Treasury Obligations		924,019
Total cash and investments	\$	<u>2,764,440</u>

EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements

June 30, 2012

NOTE 2: CASH AND INVESTMENTS (continued)

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
			20% of	
Reverse Repurchase Agreements	No	92 days	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.

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.

Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months
U.S. Treasury Obligations	\$ 924,019	\$ 924,019	\$ -	-

EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements
June 30, 2012

NOTE 2: CASH AND INVESTMENTS (continued)

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 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, 2012.

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 investments in securities.

EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements
June 30, 2012

NOTE 2: CASH AND INVESTMENTS (continued)

Custodial Credit Risk (continued)

The District investments in marketable securities are not exposed to custodial credit risk at June 30, 2012.

NOTE 3: CAPITAL ASSETS

A summary of changes in capital assets for the District's governmental activities for the year ended June 30, 2012, is as follows.

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 805,300	\$ 283,480	-	\$ 1,088,780
Capital assets, being depreciated				
Water	723,985			723,985
Sewer	1,639,110	116,517		1,755,627
General	1,157,588	334,656		1,492,244
Equipment	81,983	27,528	-	109,511
Total capital assets, being depreciated	<u>3,602,666</u>	<u>478,701</u>	-	<u>4,081,367</u>
Less accumulated depreciation:	<u>(478,200)</u>	<u>(186,946)</u>	-	<u>(665,146)</u>
Net assets being depreciated	<u>3,124,466</u>	<u>291,755</u>	-	<u>3,416,221</u>
Total capital assets, net	\$ <u>3,929,766</u>	\$ <u>575,235</u>	-	\$ <u>4,505,001</u>

Depreciation expense of \$186,946 was charged to the public services functions

NOTE 4: NOTE PAYABLE

The District purchased a pickup truck with a note with an original principal balance of \$27,528. The note bears interest at 6.54% and is payable in monthly principal and interest payment of \$643 through July 2015. Principal is due as follows:

2013	\$ 6,484
2014	6,928
2015	<u>8,048</u>
	\$ <u>21,460</u>

EMERALD BAY SERVICE DISTRICT

Notes to Basic Financial Statements
June 30, 2012

NOTE 5: 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 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, 2012.

Related Party Transactions

The Board of Directors of the Emerald Bay Service District entered into a management service agreement with Emerald Bay Community Association (Association), a legally separate, but geographically related entity. The term of this management service agreement expires December 31, 2012. Fees are charged at a fixed rate of \$8,680 per month, plus a percentage of the Association's general manager and administrative assistant's salaries.

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, 2012, District residents were charged approximately \$530,000 for their consumption of 241 acre feet (approx. 80 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, 2012, the County apportioned and paid to OCFA approximately \$1.5 million in property taxes to provide these services.

NOTE 6: SUBSEQUENT EVENTS

The District has evaluated subsequent events through May 10, 2013, 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, 2012

	Original and Final Budget	Actual	Variance Over (Under)
Revenues:			
Taxes	\$ 1,748,230	\$ 1,679,582	\$ (68,648)
Interest earnings	74,000	7,429	(66,571)
Net decrease in the fair value of investments	13,200	39,038	25,838
Other			-
	<u>1,835,430</u>	<u>1,726,049</u>	<u>(109,381)</u>
Expenditures:			
Current:			
General government	755,400	527,133	(228,267)
Public services (sewer services)	334,500	302,997	(31,503)
Recreation and safety	186,500	179,134	(7,366)
Capital expenditures	1,049,000	762,181	(286,819)
	<u>2,325,400</u>	<u>1,771,445</u>	<u>(553,955)</u>
Net change in fund balance	<u>(489,970)</u>	<u>(45,396)</u>	<u>444,574</u>
Fund balance - beginning of year	<u>2,738,469</u>	<u>2,738,469</u>	<u>-</u>
Fund balance - end of year	<u>\$ 2,248,499</u>	<u>\$ 2,693,073</u>	<u>\$ 444,574</u>

The accompanying notes are See Accompanying Notes to Required Supplementary Information

EMERALD BAY SERVICE DISTRICT
General Fund
Functional Expenditures Budgetary Comparison Schedule
For the Year Ended June 30, 2012

	Original and Final Budget	Actual	Variance Over (Under)
General government			
Professional services - other	\$ 12,000	\$ 10,000	\$ (2,000)
Insurance	75,000	62,450	(12,550)
County of Orange - tax adm cha	14,000	12,863	(1,137)
Legal fees	75,000	53,946	(21,054)
Accounting fees	11,000	18,150	7,150
Audit	6,000	7,007	1,007
Management services	440,000	407,586	(32,414)
Routine maintenance & Supplies	5,000	7,151	2,151
Electricity	14,500	12,898	(1,602)
Telephone	3,100	3,137	37
Water	800	2,456	1,656
Memberships & contributions	8,000	8,087	87
Admin. Miscellaneous expense	7,000	9,639	2,639
Computer Services	-	7,811	7,811
Office & collection expenses	5,000	3,270	(1,730)
LAFCO annual contribution	10,000	18,315	8,315
Maintenance Equipment	45,000	14,418	(30,582)
Maint. Vehicle Gas & Repairs	20,000	12,848	(7,152)
Training Classes-Workshop	4,000	1	(3,999)
Runoff Management/Storm Drain	-	19	19
Hydrology curbs & Gutters	-	274,744	274,744
Hydrology /flood control Eng & Work	-	(731,517)	(731,517)
Hydrology /flood control Eng & Work	-	16,141	16,141
Traffic signal main gate project	-	269,730	269,730
Storm Drain	-	34,191	34,191
Maintance Yard	-	(9,976)	(9,976)
Miscellaneous/CERT Expense	-	1,768	1,768
Total General government	<u>755,400</u>	<u>527,133</u>	<u>(228,267)</u>
Public services (sewer services)			
Engineer surveys & expenses	5,000	6,128	1,128
Monthly inspections	4,000	2,190	(1,810)
Sewage treatment services	170,000	169,391	(609)
Supplies & chemicals	2,500	406	(2,094)
Office & collection expenses	-	826	826
Sewer relining	100,000	46,205	(53,795)
Sewer/Water Maps	-	1,285	1,285
Improvements Pump stations	-	24,273	24,273
Sewer Repair	-	250	250
Pump Stations Motors (Pumps)	-	22,589	22,589
Reservoir Reserve	28,000	28,000	-
Emergency Sewer line Protection project	25,000	1,454	(23,546)
Total Public services (sewer services)	<u>334,500</u>	<u>302,997</u>	<u>(31,503)</u>
Recreation and safety			
Fuel mod./weed abatement	20,000	33,046	13,046
Fireworks	51,500	48,509	(2,991)
Beach Lifeguards	95,000	93,089	(1,911)
Emergency Preparedness & CERT	20,000	4,490	(15,510)
Total Recreation and safety	<u>186,500</u>	<u>179,134</u>	<u>(7,366)</u>
Capital expenditures	<u>1,049,000</u>	<u>762,181</u>	<u>(286,819)</u>
Total expenditures	<u>\$ 2,325,400</u>	<u>\$ 1,771,445</u>	<u>\$ (553,955)</u>

The accompanying notes are See Accompanying Notes to Required Supplementary Information

EMERALD BAY SERVICE DISTRICT

Notes to Required Supplementary Information
June 30, 2012

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.