

SUNSET BEACH SANITARY DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2025



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**SUNSET BEACH SANITARY DISTRICT
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YEAR ENDED JUNE 30, 2025**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Sunset Beach Sanitary District
Sunset Beach, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the general fund of the Sunset Beach Sanitary District (the District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the District as of June 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule – General Fund be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenses and revenues by function is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenses by function is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2026, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Irvine, California
August 27, 2026

**SUNSET BEACH SANITARY DISTRICT
GOVERNMENTAL FUND BALANCE SHEET AND
STATEMENT OF NET POSITION
JUNE 30, 2025**

	General Fund	Adjustments	Statement of Net Position
ASSETS			
CURRENT ASSETS			
Cash and Investments	\$ 3,963,256	\$ -	\$ 3,963,256
Property Taxes Receivable	47,835	-	47,835
Interest Receivable	47,707	-	47,707
Prepaid Items	49,367	-	49,367
Total Current Assets	<u>4,108,165</u>	<u>-</u>	<u>4,108,165</u>
CAPITAL ASSETS			
Sewer Transmission and Treatment Capacity Rights	-	1,754,389	1,754,389
Construction in Progress	-	1,324,954	1,324,954
Property, Plant, and Equipment, Net of \$2,420,408			
Accumulated Depreciation	<u>-</u>	<u>2,300,534</u>	<u>2,300,534</u>
Total Capital Assets	<u>-</u>	<u>5,379,877</u>	<u>5,379,877</u>
Total Assets	<u><u>\$ 4,108,165</u></u>	<u><u>\$ 5,379,877</u></u>	<u>9,488,042</u>
LIABILITIES AND FUND BALANCE/NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$ 270,374	\$ -	270,374
Wages Payable	8,597	-	8,597
Lease Payable	-	12,572	12,572
Interest Payable	<u>-</u>	<u>2,563</u>	<u>2,563</u>
Total Current Liabilities	<u>278,971</u>	<u>15,135</u>	<u>294,106</u>
LONG-TERM LIABILITIES			
Loan Payable	<u>-</u>	<u>437,000</u>	<u>437,000</u>
Total Liabilities	<u>278,971</u>	<u>452,135</u>	<u>731,106</u>
FUND BALANCE			
Nonspendable:			
Prepaid Items	49,367	(49,367)	
Committed:			
Emergency Reserve	185,578	(185,578)	
Capital Improvements - Broadway Pump Station Bypass Sewer	500,000	(500,000)	
Debt Service	477,234	(477,234)	
Unassigned	<u>2,617,015</u>	<u>(2,617,015)</u>	
Total Fund Balance	<u><u>3,829,194</u></u>	<u><u>(3,829,194)</u></u>	
NET POSITION			
Net Investment in Capital Assets		4,929,938	4,929,938
Unrestricted		<u>3,826,998</u>	<u>3,826,998</u>
Total Net Position		<u><u>8,756,936</u></u>	<u><u>\$ 8,756,936</u></u>
Total Liabilities and Fund Balance and Net Position	<u><u>\$ 4,108,165</u></u>	<u><u>\$ 5,379,877</u></u>	

See accompanying Notes to Basic Financial Statements.

**SUNSET BEACH SANITARY DISTRICT
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2025**

	General Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Sanitation Services:			
Salaries and Employee Benefits	\$ 232,458	\$ -	\$ 232,458
Equipment and Facilities, Maintenance, and Repair	164,725	(15,177)	149,548
Insurance	18,424	-	18,424
Memberships	13,026	-	13,026
Office Expense	3,513	-	3,513
Professional and Specialized Services	108,205	(1,958)	106,247
Publication of Legal Notice	580	-	580
Refuse Disposal	312,897	-	312,897
Rent and Leases	2,899	-	2,899
Capital Outlay	605,235	(605,235)	-
Telephone	3,201	-	3,201
Transportation and Travel	5,267	-	5,267
Utilities	220,483	-	220,483
Debt Service - Principal	12,640	(12,640)	-
Debt Service - Interest	-	2,563	2,563
Depreciation	-	183,390	183,390
Total Expenditures/Expenses	<u>1,703,553</u>	<u>(449,057)</u>	<u>1,254,496</u>
PROGRAM REVENUES			
Sanitation Service Fees	<u>716,529</u>	<u>-</u>	<u>716,529</u>
Net Program Revenue (Expenses)	(987,024)	449,057	(537,967)
GENERAL REVENUES			
Property Taxes	1,166,140	-	1,166,140
Penalties and Costs	270	-	270
Sanitation Permits	54,000	-	54,000
Interest Earned	146,682	-	146,682
Other	6,514	-	6,514
Total General Revenues	<u>1,373,606</u>	<u>-</u>	<u>1,373,606</u>
OTHER FINANCING SOURCES			
Issuance of Debt	<u>437,000</u>	<u>(437,000)</u>	<u>-</u>
CHANGE IN FUND BALANCE	823,582		
Fund Balance - June 30, 2024	<u>3,005,612</u>		
FUND BALANCE - JUNE 30, 2025	<u>\$ 3,829,194</u>		
CHANGE IN NET POSITION		<u>\$ 12,057</u>	835,639
Net Position - June 30, 2024			<u>7,921,297</u>
NET POSITION - JUNE 30, 2025			<u>\$ 8,756,936</u>

See accompanying Notes to Basic Financial Statements.

**SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Reporting Entity

The Sunset Beach Sanitary District (the District) was organized in 1930 to operate a sewer system and other sanitary purposes serving the residents of Sunset Beach within the city of Huntington Beach, Surfside Colony within the city of Seal Beach, and certain lots within the city of Huntington Beach. At June 30, 2025, the District served 992 residential sewage units, 375 commercial sewage units, 12 sewer cleaning units (restaurants), and 1,003 trash units.

Financial Statement Presentation

Local government entities are required to report information on a government-wide basis and on a fund basis (with emphasis placed on major funds of the entity). The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. The governmental fund financial statements (i.e., balance sheet and the statement of revenues, expenditures, and changes in fund balance) report information on individual funds of the government. A fund is considered to be a separate accounting entity with a self-balancing set of accounts.

Since the District is engaged in a single governmental activity and has no component units or fiduciary activities, the government-wide and governmental fund financial statements have been combined with a reconciliation of the individual line items in a separate column titled "Adjustments" on the financial statements, which accounts for the differences in measurement focus and basis of accounting of these financial statements. The amounts reported in the "Adjustments" column pertain to the balances and activity of the District's long-term assets and liabilities. The government-wide financial statements are reported in the "Statement of Net Position" and "Statement of Activities" columns. The governmental fund financial statements are reported in the "General Fund" column.

Measurement Focus

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

On the government-wide statement of net position and the statement of activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

In the governmental fund financial statements, all funds are accounted for on the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

**SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus (Continued)

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. Amounts expended to acquire capital assets are recorded as expenditures in the year that the resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Basis of Accounting

In the government-wide statement of net position and statement of activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset is used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the governmental fund financial statements, funds are presented using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Measurable means that the amounts can be estimated or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. The District considers fees for sanitation services, property taxes, and investment income to be available if collected within 60 days of the end of the current fiscal period.

Fees for sanitation services, property taxes, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the government.

Investments

Investments are reported at fair value, which represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

The capital assets of the District are composed of capacity rights purchased by the District in sewage treatment and transmission facilities owned by others, as well as capital assets owned by the District. Capacity rights are carried at cost with no provision for amortization.

Other capital assets owned by the District, which include sewer improvements, pump stations, and equipment, are carried at cost, net of accumulated depreciation. Capital assets are depreciated using the straight-line method, and the estimated useful lives of the related assets used for depreciation are as follows:

Sewer Improvements and Pump Stations	10 to 30 Years
Equipment	7 to 10 Years

The District's policy is to capitalize assets purchased with an economic useful life of more than one year and a cost of more than \$1,000.

Sanitation and Sewerage Services Revenue

Sanitation services revenue results from residential and business refuse disposal secured assessments, which are collected from the District's property owners by additions to the annual property tax statements.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on November 1 and February 1 and become delinquent on December 11 and April 11. The County of Orange (the County) bills and collects the property taxes and remits them to the District in installments during the year. District property tax revenues are recognized when levied to the extent that they result in current receivables.

Net Position

In the statement of net position, net position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation on these assets and related long-term debt used to acquire the assets reduce this category.

Unrestricted Net Position – This category represents the net position of the District that is not restricted for any project or other purpose.

**SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund Balance

The fund balance reported in the governmental fund balance sheet is classified in the following categories:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because it is either not spendable in form or legally or contractually required to be maintained intact.

Committed Fund Balance – This classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the board of directors. These commitments may be changed or lifted but only by the same formal action, a resolution, that was used to impose the constraint originally.

Unassigned Fund Balance – This classification includes the residual balance for the government's general fund and includes all spendable amounts not contained in other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District's policy is to apply the restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned fund balances are available, the District's policy is to apply the committed fund balance first, then the assigned fund balance, and finally the unassigned fund balance.

**SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased Property

Lessee

The District is a lessee for noncancellable lease of property. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the applicable governmental activities in the government-wide financial statements. The District recognizes lease liabilities with an initial individual value of \$1,000 or more. At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Budget

The board of directors adopts an annual budget that begins on July 1. Annual appropriations are approved by the board of directors prior to the beginning of each year. All appropriations lapse at year-end. The board of directors has the legal authority to amend the budget at any time during the fiscal year. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the expenditure line-item level.

Estimates

The preparation of basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities/and disclosures of contingent assets and liabilities at the date of the basic financial statements, as well as the reported amounts of revenues and expenditures/expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2 CASH AND INVESTMENTS

Cash and Investments

Cash and investments of \$3,963,256 consist of \$202,486 in federally insured demand accounts, \$1,099,462 invested in California Local Agency Investment Fund (LAIF), and \$2,661,308 maintained by the County as part of the County's pooled cash and investments.

Investments Authorized by the California Government Code

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

**SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by the California Government Code (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund	N/A	None	None
Orange County Pooled Investment Fund	N/A	None	None

N/A - Not Applicable

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. One of the ways that the District manages its exposure to interest rate risk is by investing in the Orange County Pooled Investment Fund (OCPIF) and LAIF. Funds invested in the OCPIF and LAIF are highly liquid, as deposits and withdrawals can be made at any time without penalty.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the OCPIF and LAIF are not rated.

Concentration of Credit Risk

The District has no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer), 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 and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental 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. Any deposits in excess of depository insurance limits at the end of the year are collateralized by securities held at the depository financial institution's trust department. As of June 30, 2025, The District did not have any deposits with financial institutions over the amount covered by FDIC insurance that is not collateralized according to California law.

**SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Investment in Orange County Pooled Investment Fund (OCPIF)

The District is a voluntary participant in the (OCPIF) which is a pooled investment fund program governed by the Orange County Board of Supervisors and is administered by the Orange County Treasurer and Tax Collector. Investments in OCPIF are highly liquid, as deposits and withdrawal can be made at any time without penalty. The District's fair value of its share in the pool is the same value of the pool shares. Information on OCPIF's use of derivative securities in its investment portfolio are in the County financial statements at www.octreasurer.com.

Investment in Local Agency Investment Fund

The District is a voluntary participant in the LAIF that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the state of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices in active markets for similar assets, and Level 3 inputs are significant unobservable inputs.

The District's investments consist of OCPIF and LAIF, which are investments not subject to the fair value hierarchy disclosure.

NOTE 3 SEWER TRANSMISSION AND TREATMENT CAPACITY RIGHTS

The District purchased capacity rights in facilities for transmission and treatment of District wastewater and sewage from the city of Huntington Beach. The city of Huntington Beach has contracted with Sanitation District No. 11 of the County of Orange to provide treatment and disposal facilities for the processing of wastewater and sewage from the District's area.

The District owns certain transmission lines and pumps that are in use but are fully depreciated since they were acquired prior to 1940. No cost or book values for these assets are shown in the accompanying financial statements.

**SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2025 was as follows:

	Balance at June 30, 2024	Additions	Deletions	Balance at June 30, 2025
Capital Assets, Not Being Depreciated:				
Capacity Rights	\$ 1,754,389	\$ -	\$ -	\$ 1,754,389
Construction in Progress	717,761	607,193	-	1,324,954
Total Capital Assets, Not Being Depreciated	2,472,150	607,193	-	3,079,343
Capital Assets, Being Depreciated:				
Sewer Improvements and Pump Stations	4,266,932	5,049	-	4,271,981
Equipment	411,324	10,128	-	421,452
Right-to-Use Assets	27,509	-	-	27,509
Total Capital Assets, Being Depreciated	4,705,765	15,177	-	4,720,942
Less: Accumulated Depreciation for:				
Sewer Improvements and Pump Stations	(1,834,881)	(159,159)	-	(1,994,040)
Equipment	(400,991)	(10,476)	-	(411,467)
Right-to-Use Assets	(1,146)	(13,755)	-	(14,901)
Total Accumulated Depreciation	(2,237,018)	(183,390)	-	(2,420,408)
Total Capital Assets Being Depreciated, Net	2,468,747	(168,213)	-	2,300,534
Capital Assets, Net	\$ 4,940,897	\$ 438,980	\$ -	\$ 5,379,877

NOTE 5 LEASES

The District leases a storage facility under a long-term, noncancelable lease agreement. The lease expires in 2026 and does not have a renewal option.

Total principal and interest payments are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 12,572	\$ 936	\$ 13,508

NOTE 6 LOAN PAYABLE

In November 2024, the District entered into an agreement with the State Water Resources Control Board (SWRCB) for the Broadway Pump Station Sewer Bypass Project. The agreement consists of a maximum loan amount of \$10,500,000 for project costs. As of June 30, 2025, the SWRCB has distributed \$437,000 related to this agreement and outstanding balance on the loan at June 30, 2025 totaled \$437,000. The agreement allows for SWRCB to terminate the contract if any provision is violated. If terminated, all outstanding amounts become immediately due upon SWRCB's request. The annual payment schedule for the outstanding balance as of June 30, 2025 cannot be determined until the full disbursement of all loan funds has been completed.

**SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 7 JOINT POWERS AUTHORITY

The District is a member of the Special District Risk Management Authority (the Authority).

Description of Special District Risk Management Authority

The Authority is an intergovernmental risk-sharing joint powers authority created under the provisions of California Government Code Sections 6500 et seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

Self-Insurance Programs of the Authority

At June 30, 2025, the District participated in the self-insurance programs of the Authority as follows:

Property – Insured up to replacement cost for scheduled property; \$1,000,000,000 per occurrence, subject to a \$1,000 deductible.

Mobile Equipment – Insured up to replacement cost for scheduled property; \$1,000,000,000 per occurrence, subject to a \$1,000 deductible.

Boiler and Machinery Coverage – Insured up to replacement cost for scheduled property; \$100,000,000 per occurrence, subject to a \$1,000 deductible.

Pollution Coverage – Insured up to replacement cost for scheduled property; \$2,000,000 per occurrence, subject to a \$1,000 deductible.

Cyber Coverage – Insured up to \$2,000,000 per occurrence, subject to a \$25,000 deductible per occurrence.

General and Auto Liability – Insured up to \$5,000,000 per occurrence, subject to a \$500 deductible for general liability claims and \$1,000 deductible for auto liability claims.

Public Officials' and Employees' Errors and Omissions and Employment Practices Liability – Insured up to \$5,000,000 per wrongful act with an annual member aggregate. The District is responsible for 50% of the amount in excess of \$10,000 and less than \$50,000. However, if certain criteria is met, this obligation will be waived.

Public Officials' Personal Liability – Insured up to \$500,000 per occurrence with an annual aggregate per board member, subject to a \$1,000 deductible.

Employee Dishonesty Coverage – Insured up to \$1,000,000 per occurrence. Includes public employee dishonesty, forgery, or alteration and theft, and disappearance and destruction coverages.

**SUNSET BEACH SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 7 JOINT POWERS AUTHORITY (CONTINUED)

Workers' Compensation Coverage and Employer's Liability Coverage – Insured up to California statutory limits for all work-related injuries/illnesses covered by California law and up to \$5,000,000 for employer's liability coverage, subject to terms, conditions, and exclusions as provided in the Memorandum of Coverage.

During the past three years, the above programs have had no settlements that exceed insurance coverage and there have been no significant reductions in insurance coverage.

**SUNSET BEACH SANITARY DISTRICT
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED JUNE 30, 2025**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Sanitation Service Fees	\$ 703,875	\$ 703,875	\$ 716,529	\$ 12,654
Property Taxes	1,131,000	1,131,000	1,166,140	35,140
Penalties and Costs	-	-	270	270
Sanitation Permits	10,000	10,000	54,000	44,000
Interest Earned	35,000	35,000	146,682	111,682
Other	5,000	5,000	6,514	1,514
Total Revenues	1,884,875	1,884,875	2,090,135	205,260
EXPENDITURES				
Sanitation Services:				
Salaries and Employee Benefits	240,000	240,000	232,458	7,542
Equipment and Facilities, Maintenance, and Repair	169,000	169,000	164,725	4,275
Insurance	18,500	18,500	18,424	76
Miscellaneous	15,000	15,000	13,026	1,974
Office Expense	1,700	1,700	3,513	(1,813)
Professional and Specialized Services	115,500	115,500	108,205	7,295
Publication of Legal Notice	4,000	4,000	580	3,420
Refuse Disposal	314,500	314,500	312,897	1,603
Facilities	18,000	18,000	2,899	15,101
Telephone	4,000	4,000	3,201	799
Transportation and Travel	5,747	5,747	5,267	480
Utilities	247,435	247,435	220,483	26,952
Debt Service - Principal	-	-	12,640	(12,640)
Capital Outlay	13,270,000	13,270,000	605,235	12,664,765
Total Expenditures	14,423,382	14,423,382	1,703,553	12,719,829
OTHER FINANCING SOURCES				
Issuance of Debt	-	-	437,000	437,000
NET CHANGES IN FUND BALANCE	(12,538,507)	(12,538,507)	823,582	13,362,089
Fund Balance - Beginning of Year	3,005,612	3,005,612	3,005,612	-
FUND BALANCE - END OF YEAR	<u>\$ (9,532,895)</u>	<u>\$ (9,532,895)</u>	<u>\$ 3,829,194</u>	<u>\$ 13,362,089</u>

See accompanying Notes to Required Supplementary Information.

**SUNSET BEACH SANITARY DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2025**

NOTE 1 GENERAL BUDGET POLICIES

The board of directors adopts an annual budget that begins on July 1. Annual appropriations are approved by the board of directors prior to the beginning of each year. All appropriations lapse at year-end. The board of directors has the legal authority to amend the budget at any time during the fiscal year.

NOTE 2 OTHER DISCLOSURES

Actual expenditures for office expenses, transportation and travel, and debt service principal and interest exceeded the budgeted expenditures by \$1,813, \$2,419, \$12,640 and \$2,563, respectively.

**SUNSET BEACH SANITARY DISTRICT
SCHEDULE OF REVENUES AND EXPENSES BY FUNCTION
YEAR ENDED JUNE 30, 2025**

	Sewer	Solid Waste	Total
EXPENSES			
Salaries and Employee Benefits	\$ 197,589	\$ 34,869	\$ 232,458
Equipment and Facilities, Maintenance, and Repair	149,548	-	149,548
Insurance	14,739	3,685	18,424
Memberships	10,421	2,605	13,026
Office Expense	2,810	703	3,513
Professional and Specialized Services	53,124	53,123	106,247
Publication of Legal Notice	464	116	580
Refuse Disposal	-	312,897	312,897
Rent and Leases	2,899	-	2,899
Telephone	2,561	640	3,201
Transportation and Travel	3,634	1,633	5,267
Utilities	220,483	-	220,483
Debt Service - Interest	2,563	-	2,563
Depreciation	183,390	-	183,390
Total Expenses	<u>844,225</u>	<u>410,271</u>	<u>1,254,496</u>
OPERATING REVENUES			
Sewer Service Fees	415,629	-	415,629
Trash Service Fees	-	300,900	300,900
Total Operating Revenues	<u>415,629</u>	<u>300,900</u>	<u>716,529</u>
GENERAL REVENUES			
Property Taxes	991,847	174,293	1,166,140
Penalties and Costs	230	40	270
Sanitation Permits	54,000	-	54,000
Interest Earned	146,682	-	146,682
Other	136	6,378	6,514
Total General Revenues	<u>1,192,895</u>	<u>180,711</u>	<u>1,373,606</u>
CHANGE IN NET POSITION	<u>\$ 764,299</u>	<u>\$ 71,340</u>	<u>\$ 835,639</u>

