MIDWAY CITY SANITARY DISTRICT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

For the Fiscal Years Ended
June 30, 2026
(With Comparative Amounts as of June 30, 2025)

NIGRO & NIGRO PC

MIDWAY CITY SANITARY DISTRICT
For the Fiscal Year Ended June 30, 2026
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Financial Section

NIGRO & NIGRO PC

A Professional Accountancy Corporation

INDEPENDENT AUDITORS' REPORT

Board of Directors
Midway City Sanitary District
Westminster, California

Opinion

We have audited the accompanying financial statements of the Midway City Sanitary District (District), which comprise the balance sheet as of June 30, 2026, and the related statement of revenue, expenses, and changes in net position, and cash flows for the year then ended, and related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2026, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As described in Notes 1, 4 and 11 to the financial statements, as of July 1, 2025, the District adopted new accounting guidance, GASB Statement No. 103, Financial Reporting Model Improvements, Statement No. 104, Disclosure of Certain Capital Assets and Statement No. 105, Subsequent Events. Our opinion is not modified with respect to these matters.

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.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 generally accepted auditing standards and *Government Auditing Standards,* we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Plan's Net Pension Liability, Schedule of the District's Contributions to the Pension Plan, Schedule of Changes in the District's Net OPEB Liability and Related Ratios, and Schedule of the District's Contributions to the OPEB Plan 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.

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2025, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued a separate report dated November 17, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Murrieta, California
November 17, 2026

Management's Discussion and Analysis (MD&A) offers readers of Midway City Sanitary District's financial statements a narrative overview of the District's financial activities for the fiscal years ended June 30, 2026 and 2025. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to-prior-year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Balance Sheet includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and creditworthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

FINANCIAL SUMMARY

- The District's net position increased by $6,141,141, or 6.48%, during fiscal year 2026, resulting in ending net position of $100,975,561. The increase was primarily attributable to growth in sewer use assessments and charges, property taxes, and investment earnings, which exceeded growth in operating expenses.
- Total revenues increased by $152,224, or 0.81%, from $18,767,678 in fiscal year 2025 to $18,919,902 in fiscal year 2026. The increase was primarily attributable to a $311,969 increase in sewer and solid waste use assessments and charges and a $375,711 increase in property tax revenue. These increases were partially offset by a $633,943 decrease in investment earnings.
- Total expenses decreased by $1,620,174, or 12.62%, from $12,836,704 to $11,216,530. The reduction in overall operating expenses reflects a current year non-cash pension credit attributable to the District's employee benefit costs, as well as a significant reduction in repairs and maintenance costs.
- The District's total assets and deferred outflows of resources increased by $6,334,372 during the year, reflecting growth in cash and cash equivalents, the net pension asset, net OPEB asset, and capital assets. At June 30, 2026, the District reported cash and cash equivalents of $63,645,694 and unrestricted net position of $64,270,929, providing continued flexibility to support future operations.

DETAILED ANALYSES

Condensed Balance Sheets

	June 30, 2026	June 30, 2025	Change
Assets:			
Current assets	$ 65,473,641	$ 61,422,079	$ 4,051,562
Non-current assets	8,766,354	6,629,979	2,136,375
Capital assets, net	27,830,059	26,694,574	1,135,485
Total assets	102,070,054	94,746,632	7,323,422
Deferred outflows of resources	1,920,592	2,909,642	(989,050)
Total assets and deferred outflows of resources	$ 103,990,646	$ 97,656,274	$ 6,334,372
Liabilities:			
Current liabilities	$ 1,205,669	$ 1,130,380	$ 75,289
Non-current liabilities	219,849	203,062	16,787
Total liabilities	1,425,518	1,333,442	92,076
Deferred inflows of resources	1,589,567	1,488,412	101,155
Net position:			
Investment in capital assets	27,830,059	26,694,574	1,135,485
Restricted for OPEB benefits	1,004,873	551,475	453,398
Restricted for pension benefits	7,761,481	6,078,504	1,682,977
Recycling outreach and education (SB1383)	108,219	181,446	(73,227)
Unrestricted	64,270,929	61,328,421	2,942,508
Total net position	100,975,561	94,834,420	6,141,141
Total liabilities, deferred outflows of resources and net position	$ 103,990,646	$ 97,656,274	$ 6,334,372

DETAILED ANALYSES (continued)

Condensed Statement of Net Position (continued)

Total assets increased by $7,323,422, from $94,746,632 to $102,070,054. The increase was primarily attributable to a $3,849,368 increase in cash and cash equivalents, a $2,350,978 increase in capital assets not being depreciated, and increases in the District's net pension and net OPEB assets of $1,372,229 and $453,398, respectively. These increases were partially offset by a $1,214,493 decrease in capital assets being depreciated, net.

Deferred outflows of resources decreased by $989,050, from $2,909,642 to $1,920,592, primarily due to decreases in deferred amounts related to the net pension and net OPEB liabilities.

Total liabilities increased by $92,076, from $1,333,442 to $1,425,518. The increase was primarily attributable to a $58,503 increase in accounts payable and accrued expenses and an increase in compensated absences.

Deferred inflows of resources increased by $101,155, from $1,488,412 to $1,589,567. The increase was primarily attributable to a $335,144 increase in deferred amounts related to the net OPEB liability, partially offset by a $233,989 decrease in deferred amounts related to the net pension liability.

Total net position increased by approximately $6,141,141, from $94,834,420 to $100,975,561. The increase was primarily reflected in a $2,942,508 increase in unrestricted net position, a $1,682,977 increase in amounts restricted for pension benefits, and a $1,135,485 increase in investment in capital assets. Capital additions, including construction-in-process, exceeded current-year depreciation. Net position restricted for OPEB benefits also increased by $453,398, while amounts restricted for recycling outreach and education decreased by $73,227.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	June 30, 2026	June 30, 2025	Change
Operating revenues	$ 10,287,865	$ 9,925,904	$ 361,961
Operating expenses	(11,216,530)	(12,836,704)	1,620,174
Operating loss before depreciation	(928,665)	(2,910,800)	1,982,135
Depreciation expense	(1,562,231)	(1,600,870)	38,639
Operating loss	(2,490,896)	(4,511,670)	2,020,774
Noncapital subsidies	5,877,695	5,501,984	375,711
Operating loss and non-capital subsidies	3,386,799	990,314	2,396,485
Other non-operating revenues(expenses)	2,754,342	3,339,790	(585,448)
Change in net position	6,141,141	4,330,104	1,811,037
Net position:			
Beginning of year	94,834,420	90,504,316	4,330,104
End of year	$ 100,975,561	$ 94,834,420	$ 6,141,141

The District reported an increase in net position of $6,141,141 during fiscal year 2026. The District's operating loss before depreciation improved by $1,982,135. The reduction in overall operating expenses reflects a current year non-cash pension credit attributable to the district's employee benefit costs.

DETAILED ANALYSES (continued)

Condensed Statements of Revenues, Expenses, and Changes in Net Position (continued)

Total operating revenues increased by $361,961, primarily due to higher sewer and solid waste use assessments and charges. Operating expenses decreased by $1,620,174, primarily due to a reduction in employee benefit costs, repairs and maintenance, and professional and technical services. The decrease in employee benefit costs was largely attributable to a current-year non-cash pension credit, while the decrease in repairs and maintenance was primarily attributable to lower CCTV inspection and cleaning costs. As a result, the District's operating loss before depreciation improved by $1,982,135, from $2,910,800 to $928,665.

Noncapital subsidies increased by $375,711, from $5,501,984 to $5,877,695, primarily due to increased property tax revenues. Other non-operating revenues decreased by $585,448, primarily due to lower investment earnings. Overall, the District reported a $6,141,141 increase in net position for fiscal year 2025-26, compared with an increase of $4,330,104 in the prior year. The District's ending net position increased to $100,975,561 at June 30, 2026.

Total Revenues

	June 30, 2026	June 30, 2025	Increase (Decrease)
Operating revenues:			
Sewer and solid waste use assessments and charges	$ 8,397,845	$ 8,085,876	$ 311,969
Franchise fees	1,594,963	1,621,652	(26,689)
Other charges and services	169,121	92,396	76,725
Other operating revenues	125,936	125,980	(44)
Total operating revenues	10,287,865	9,925,904	361,961
Non-capital subsidies:			
Property taxes	5,877,695	5,501,984	375,711
Total noncapital subsidies	5,877,695	5,501,984	375,711
Other non-operating revenues:			
Investment earnings	2,645,516	3,279,459	(633,943)
Sale of capital assets	17,926	35,713	(17,787)
Capital contributions	90,900	24,618	66,282
Total other non-operating revenues	2,754,342	3,339,790	(585,448)
Total revenues	$ 18,919,902	$ 18,767,678	$ 152,224

Total revenues increased by approximately $152,224, or 0.81%, from $18,767,678 in fiscal year 2025 to $18,919,902 in fiscal year 2026. The increase was primarily attributable to higher property tax revenues and sewer use assessments and charges, which increased by $375,711 and $311,969, respectively. These increases were largely offset by a $633,943 decrease in investment earnings, primarily resulting from lower investment yields during the current fiscal year. The District also recognized approximately $51,000 in state capital grant revenue during fiscal year 2026.

DETAILED ANALYSES (continued)

Total Expenses

	June 30, 2026	June 30, 2025	Increase (Decrease)
Operating expenses:			
Sewage collection and pump stations	$ 1,535,178	$ 2,698,580	$ (1,163,402)
Solid waste disposal	6,008,468	5,878,156	130,312
General and administrative	3,672,884	4,259,968	(587,084)
Total operating expenses	11,216,530	12,836,704	(1,620,174)
Depreciation expense	1,562,231	1,600,870	(38,639)
Total expenses	$ 12,778,761	$ 14,437,574	$ (1,658,813)

Total operating expenses decreased by $1,620,174, or 12.62%, from $12,836,704 in fiscal year 2025 to $11,216,530 in fiscal year 2026. The reduction in overall operating expenses reflects a current year non-cash pension credit attributable to the District's employee benefit costs. These decreases were partially offset by higher solid waste disposal expenses. Depreciation expense remained relatively consistent with the prior year.

SIGNIFICANT CAPITAL ASSET AND LONG-TERM LIABILITY ACTIVITY

Capital assets:	Balance June 30, 2026	Balance June 30, 2025
Non-depreciable assets	$ 2,554,758	$ 204,780
Depreciable assets	44,869,342	44,621,783
Accumulated depreciation	(19,594,041)	(18,131,989)
Total capital assets, net	$ 27,830,059	$ 26,694,574

The District's net capital assets increased by $1,135,485 during fiscal year 2026, from $26,694,574 to $27,830,059. The increase was primarily attributable to $1,836,830 land acquisition, $145,000 in additions to easements, $419,624 of construction-in-progress, and $296,262 of vehicles and equipment. These additions were partially offset by vehicle retirements and $1,562,231 of current-year depreciation. Additional information regarding the District's capital assets is presented in Note 4 of the financial statements.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The District's fiscal year 2026-27 budget reflects several currently known factors expected to affect future operations and financial results. These include the anticipated financial impact of changes to the WISE Agreement, implementation of the District's wastewater capacity fee, anticipated changes in investment earnings, and increases in labor costs. The District also continues to implement its capital improvement program, which includes planned investments in sewer collection, solid waste, and other District infrastructure. These factors have been incorporated into the District's financial and operational planning for fiscal year 2026-27.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The District's basic financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional information, please contact the District's Financial Manager at 14451 Cedarwood St, Westminster, California 92683 or (714) 893-3553.

MIDWAY CITY SANITARY DISTRICT

Statement of Net Position

June 30, 2026 (With Comparative Amounts as of June 30, 2025)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2026	2025
Current assets:		
Cash and cash equivalents (Note 2)	$ 63,645,694	$ 59,796,326
Accrued interest receivable	572,464	600,250
Accounts receivable	591,428	371,507
Property taxes receivable	202,037	195,238
Materials and supplies inventory	444,518	458,758
Prepaid expenses	17,500	-
Total current assets	65,473,641	61,422,079
Non-current assets:		
Restricted – investments held by Section 115 pension trust (Notes 2 and 3)	5,723,042	5,412,294
Net OPEB asset (Note 6)	1,004,873	551,475
Net pension asset (Note 7)	2,038,439	666,210
Capital assets – not being depreciated (Note 4)	2,554,758	204,780
Capital assets – being depreciated, net (Note 4)	25,275,301	26,489,794
Total non-current assets	36,596,413	33,324,553
Total assets	102,070,054	94,746,632
Deferred outflows of resources:		
Deferred amounts related to net OPEB liability (Note 6)	596,262	762,017
Deferred amounts related to net pension liability (Note 7)	1,324,330	2,147,625
Total deferred outflows of resources	1,920,592	2,909,642
Total assets and deferred outflows of resources	$ 103,990,646	$ 97,656,274
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	$ 985,820	$ 927,317
Long-term liabilities – due within one year:		
Compensated absences (Note 5)	219,849	203,063
Total current liabilities	1,205,669	1,130,380
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences, net (Note 5)	219,849	203,062
Total non-current liabilities	219,849	203,062
Total liabilities	1,425,518	1,333,442
Deferred inflows of resources:		
Deferred amounts related to net OPEB liability (Note 6)	821,430	486,286
Deferred amounts related to net pension liability (Note 7)	768,137	1,002,126
Total deferred inflows of resources	1,589,567	1,488,412
Net position:		
Investment in capital assets	27,830,059	26,694,574
Restricted for OPEB benefits (Note 6)	1,004,873	551,475
Restricted for pension benefits (Note 3 and 7)	7,761,481	6,078,504
Recycling outreach and education (SB-1383)	108,219	181,446
Unrestricted	64,270,929	61,328,421
Total net position	100,975,561	94,834,420
Total liabilities, deferred inflows of resources and net position	$ 103,990,646	$ 97,656,274

MIDWAY CITY SANITARY DISTRICT

Statements of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2026 (With Comparative Amounts as of June 30, 2025)

	2026	2025
Operating revenues:		
Sewer and solid waste use assessments and charges	$ 8,397,845	$ 8,085,876
Franchise fees	1,594,963	1,621,652
Other charges and services	169,121	92,396
Other operating revenues	125,936	125,980
Total operating revenues	10,287,865	9,925,904
Operating expenses:		
Sewage collection and pump stations	1,535,178	2,698,580
Solid waste disposal	6,008,468	5,878,156
General and administrative	3,672,884	4,259,968
Total operating expenses	11,216,530	12,836,704
Operating loss before depreciation	(928,665)	(2,910,800)
Depreciation expense	(1,562,231)	(1,600,870)
Operating loss	(2,490,896)	(4,511,670)
Noncapital subsidies:		
Property taxes	5,877,695	5,501,984
Total noncapital subsidies	5,877,695	5,501,984
Operating loss and noncapital subsidies	3,386,799	990,314
Other non-operating revenues(expenses):		
Investment earnings	2,645,516	3,279,459
Sale of capital assets	17,926	35,713
Capital contributions:		
State capital grants	51,476	-
Connection fees	33,150	24,618
Capacity fees	6,274	-
Total other non-operating revenues(expenses)	2,754,342	3,339,790
Change in net position	6,141,141	4,330,104
Net position:		
Beginning of year	94,834,420	90,504,316
End of year	$ 100,975,561	$ 94,834,420

MIDWAY CITY SANITARY DISTRICT
Statements of Cash Flows
For the Fiscal Year Ended June 30, 2026 (With Comparative Amounts as of June 30, 2025)

	2026	2025
Cash flows from operating activities:		
Cash receipts from customers and others	$ 10,067,944	$ 9,874,583
Cash paid to employees for salaries and wages	(3,839,206)	(3,430,404)
Cash paid to vendors and suppliers for materials and services	(8,023,930)	(9,193,386)
Net cash used in operating activities	(1,795,192)	(2,749,207)
Cash flows from non-capital financing activities:		
Proceeds from property taxes	5,870,896	5,470,960
Net cash provided by non-capital financing activities	5,870,896	5,470,960
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,697,716)	(501,403)
Proceeds from the sale of capital assets	17,926	35,713
Proceeds from state capital grants	51,476	-
Connection and capacity fees	39,424	24,618
Net cash used in capital and related financing activities	(2,588,890)	(441,072)
Cash flows from investing activities:		
Investment earnings	2,362,554	3,182,977
Net cash provided by investing activities	2,362,554	3,182,977
Net increase in cash and cash equivalents	3,849,368	5,463,658
Cash and cash equivalents:		
Beginning of year	59,796,326	54,332,668
End of year	$ 63,645,694	$ 59,796,326

MIDWAY CITY SANITARY DISTRICT
Statements of Cash Flows (continued)
For the Fiscal Year Ended June 30, 2026 (With Comparative Amounts as of June 30, 2025)

	2026	2025
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (2,490,896)	$ (4,511,670)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	1,562,231	1,600,870
Change in assets – (increase)decrease:		
Accounts receivable	(219,921)	(51,321)
Prepaid expenses	(17,500)	2,668
Materials and supplies inventory	14,240	31,041
Net OPEB asset	(453,398)	81
Net pension asset	(1,372,229)	(1,664,737)
Change in deferred outflows of resources – (increase)decrease		
Deferred amounts related to net OPEB liability	165,755	156,355
Deferred amounts related to net pension liability	823,295	944,376
Change in liabilities – increase(decrease):		
Accounts payable and accrued expenses	58,503	(18,086)
Compensated absences	33,573	88,386
Change in deferred inflows of resources – increase(decrease)		
Deferred amounts related to net OPEB liability	335,144	(66,543)
Deferred amounts related to net pension liability	(233,989)	739,373
Total adjustments	695,704	1,762,463
Net cash used in operating activities	$ (1,795,192)	$ (2,749,207)

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The Midway City Sanitary District (District) operates as authorized by the State of California. The Health and Safety Code of California (the Sanitary District of 1923) is the governing law. In addition, the County of Orange (the County) has determined (through the Local Agency Formation Commission) the sphere of influence of the District's boundaries. The District services areas in Westminster and the unincorporated areas of the County known as Midway City.

The District is operated by a general manager, administrative staff, and field personnel. The general manager is hired by a five-member board of directors, who are elected by the public to a four-year term.

Activities of the District include the following:

- The provisions of local sewage collection service to properties within the District.
- The maintenance and cleaning of sewage collection lines.
- The approval of plans and the inspection of the construction of sewers built within the District by developers.
- The provision for trash and solid waste collection and disposal for residences.
- The contracts with a third party for trash and solid waste collection for general, commercial, and industrial businesses.

The District owns and operates vehicles for the above purposes and also owns property on which the District office and truck facilities are located, including a garage and other buildings for the purpose of servicing and maintaining trucks and sewer lines. The District has contracted with a third party for the collection of solid waste collected in bins.

The scope of this report extends exclusively to the financial information presented for the District. The District is governed by a five-person Board of Directors (Board) elected for four-year terms. The Board has no oversight responsibility for any other governmental unit or agency. As such, the Board's governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters extends only to the affairs of the District.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, The Financial Reporting Entity (GASB Statement No. 61). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The 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 at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied.

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as operating income in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of 90 days or less, when purchased, to be cash equivalents. Cash deposits are reported at the carrying amount, which reasonably estimates fair value.

2. Investments

Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the statement of net position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

2. Investments (continued)

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

3. Restricted Assets

The District's restricted assets consist of a Section 115 trust with California Public Employees' Retirement System (CalPERS) called California Employers' Pension Prefunding Trust (CEPPT) that is dedicated to pre-funding employer contributions to the defined benefit pension plan.

4. Accounts Receivable

Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations. The majority of the District's sewer user assessment revenue and all of the property tax revenue is collected by the County of Orange through charges on the tax rolls.

5. Materials and Supplies Inventory

Supply inventories maintained by the District consist primarily of pumps, valves, and equipment parts retained for use in the District's equipment. Small parts inventory are valued at cost using the last-in, first-out method. Pumps are recorded at historical cost.

6. Prepaids

Certain payments of vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

7. Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the District's policy to capitalize assets costing over $5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. Estimated service lives for the District's classes of assets are as follows:

Description	Estimated Lives
Building and improvements	10-25 years
Lift stations	40 years
Gravity lines and force mains	75 years
Resident containers	10 years
Refuse CNG station and facilities	5-25 years
Refuse trucks	8 years
Other vehicles	5-8 years
Other equipment	5-10 years

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

9. Compensated Absences

The liability for compensated absences is reported in the statement of net position. In accordance with GASB Statement No. 101, Compensated Absences, leave is recognized when it is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Management evaluates sick leave for other District employees to determine the amount that is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This analysis includes assessing relevant factors such as historical information about the use, payment or forfeiture of compensated absences, and the District's policies related to compensated absences. The measurement of compensated absences includes salary-related payments such as the employer portion of Medicare taxes.

10. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's Retiree Benefits Plan ("the Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments which are reported at cost.

The following timeframes are used for OPEB reporting:

Valuation Date June 30, 2025
Measurement Date June 30, 2025
Measurement Period July 1, 2024 to June 30, 2025

11. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans and addition to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

11. Pensions (continued)

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

Valuation Date June 30, 2024
Measurement Date June 30, 2025
Measurement Period July 1, 2024 to June 30, 2025

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retirees) as of the beginning of the measurement period.

12. Net Position

Net position is classified into three components: net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- **Restricted net position –** This component of net position consists of constraints placed on net position 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.

- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Property Taxes

The Orange County Assessor's Office assesses all real and personal property within the County each year. The Orange County Tax Collector's Office bills and collects the District's share of property taxes. The Orange County Auditor-Controller's Office remits current property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article XIIIA of the State Constitution at one percent (1%) of countywide assessed valuations. Property taxes receivable at year-end are related to property taxes collected by the Orange County Tax Collector's Office, which have not been credited to the District's cash balance as of June 30.

The property tax calendar is as follows:

Lien date January 1
Levy date July 1
Due dates November 1 and February 1
Collection dates December 10 and April 10

F. Connection Fees

Connection fees are capital recovery fees established as one-time charges assessed against developers or new customers to recover a part or all the cost of additional system capacity constructed for their use. The amounts charged are recognized when paid, which reserves system capacity for the property.

G. Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year's presentation.

H. New Pronouncements – Governmental Accounting Standards Board (GASB)

During the fiscal year ended June 30, 2026, the District implemented new GASB pronouncements as follows:

GASB Statement No. 103 – Financial Reporting Model Improvements

This GASB Statement revises financial statement presentation requirements, including enhancements to Management's Discussion and Analysis (MD&A), proprietary fund reporting, and disclosures for major component units. The District adopted the Statement as of July 1, 2025.

GASB Statement No. 104 – Disclosure of Certain Capital Assets

This GASB Statement establishes new disclosure requirements for certain types of capital assets, including assets held for sale. Implementation of the Statement did not have a material effect on the District's financial statement disclosures. The District adopted the Statement as of July 1, 2025.

GASB Statement No. 105 – Subsequent Events

This GASB Statement clarifies the subsequent events that constitute recognized and non-recognized events and establishes specific note disclosure requirements for non-recognized events. The District elected to early implement GASB Statement No. 105, Subsequent Events, effective July 1, 2025. Implementation of the Statement did not have a material effect on the District's financial statements or related disclosures.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments were classified in the accompanying financial statements as follows:

Description	June 30, 2026
Cash and cash equivalents	$ 63,645,694
Restricted – investments held by Section 115 pension trust	5,723,042
Total cash and investments	$ 69,368,736

Cash and investments consisted of the following:

Description	June 30, 2026
Petty cash	$ 300
Demand deposits held with financial institutions	1,231,522
Local Agency Investment Fund (LAIF)	56,120,462
California Cooperative Liquid Assets Securities System (CLASS)	2,467,726
California Asset Management Program (CAMP) Pool	2,362,384
CalTRUST Investment Pool	1,463,300
Investments held by Section 115 pension trust	5,723,042
Total cash and investments	$ 69,368,736

Demand Deposits with Financial Institutions
At June 30, 2026, the carrying amount of the District's demand deposits were $1,231,522 and the financial institution's balances were $1,240,363. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the District's balance for each year.

Custodial Credit Risk – Deposits
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 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 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 fair 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. As of June 30, 2026, the District's deposits were covered by the Federal Deposit Insurance Corporation insurance limits or collateralized as required by California law.

NOTE 2 – CASH AND INVESTMENTS (continued)

Local Agency Investment Fund (LAIF)
The California State Treasurer, through the Pooled Money Investment Account (PMIA), invests its funds to manage the State's cash flow and strengthen the financial security of local public agencies. PMIA's policy sets as primary investment objectives safety, liquidity and yield. Through the PMIA, the Investment Division manages the Local Agency Investment Fund (LAIF). LAIF allows cities, counties, and special districts to place money in a major portfolio and, at no additional costs, use the expertise of Investment Division staff. Participating agencies can withdraw their funds from LAIF at any time as LAIF is highly liquid and has a dollar-in dollar-out amortized cost methodology.

The District is a voluntary participant in LAIF. The fair value of the District's investment in this pool is reported at an amount 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 the portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis and it is Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers funds in LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of June 30, 2026, the District held $56,120,462 in LAIF.

California Cooperative Liquid Assets Securities System (California CLASS)
The California Cooperative Liquid Assets Securities System (California CLASS) is a joint exercise of power entity authorized under Section 6509.7, California Government Code. California CLASS is a pooled investment option that was created via a joint exercise of powers agreement by and among California public agencies. California CLASS provides California public agencies with a convenient method for investing in high-quality, short- to medium-term securities carefully selected to optimize interest earnings while prioritizing safety and liquidity. The California CLASS Prime and Enhanced Cash funds offer public agencies the opportunity to strengthen and diversify their cash management programs in accordance with the safety, liquidity, and yield hierarchy that governs the investment of public funds.

The management of California CLASS is under the direction of a Board of Trustees comprised of eligible Participants of the program. The Board of Trustees has appointed Public Trust Advisors, LLC to serve as the Investment Advisor and Administrator of the program and has appointed U.S. Bank as the Custodian.

The District is a voluntary participant in California CLASS. The fair value of the District's investment in this pool is reported at an amount based upon the District's pro-rata share of the fair value provided by California CLASS for the entire California CLASS portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by California CLASS. California CLASS is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis. The California Class Prime and Enhanced Cash funds receive a credit rating of AAAm (S&P Global Ratings) and AAAf/S1 (FitchRatings), respectively. For financial reporting purposes, the District considers California CLASS a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of June 30, 2026, the District held $2,467,726 in California CLASS.

NOTE 2 – CASH AND INVESTMENTS (continued)

California Asset Management Program (CAMP) Pool – External Pool
The District is a voluntary participant in the California Asset Management Program (CAMP), a California Joint Powers Authority (JPA) established in 1989 to provide California public agencies with professional investment services. The CAMP Pool is managed to maintain a dollar-weighted average portfolio maturity of 60 days or less and seeks to maintain a constant net asset value (NAV) per share of $1.00. The CAMP Pool invests in obligations of the United States Government and its agencies, high-quality, short-term debt obligations of U.S. companies and financial institutions.

The CAMP Pool is a permitted investment for all local agencies under CGC Section 53601(p). CAMP is directed by a Board of Trustees, which is made up of experienced finance directors and treasurers of California public agencies that are members of the JPA. CAMP determines fair value on its investment portfolio based on amortized cost. The District measures the value of its CAMP Pool investment at the fair value amount provided by CAMP. On June 30, 2026, the CAMP Pool had a total portfolio of approximately $20.5 billion of which all was invested in non-derivative financial products. The average maturity of the CAMP Pool's investments was 38 days as of June 30, 2026. For financial reporting purposes, the District considers CAMP Pool a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of June 30, 2026, the District held $2,362,384 in the CAMP Pool.

CalTRUST Medium-Term Money Market Mutual Fund
The CalTRUST Medium-Term Account, holds funds from all participants that are pooled in the account. Participants receive units in the Trust and designated shares for the particular account in which they invest. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et. seq. and 53635, et. seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. Leveraging within the Trust's portfolios is prohibited. The liquidity of the account is on a two-day basis for deposits or transfers. As of June 30, 2026, the District held $1,463,300 in CalTrust.

Restricted – Investments Held by Section 115 Pension Trust
The District established a Section 115 pension trust account with CalPERS entitled CEPPT to hold assets that are legally restricted for use in administering the District's pension plan. Trust account holders can select one of two strategy options for investments. The District selected the CEPPT asset allocation Strategy 1 portfolio, which seeks to provide capital appreciation and income consistent with its strategic asset allocation. The CEPPT Strategy 1 portfolio is invested in various asset classes that are passively managed to an index. CalPERS periodically adjusts the composition of the portfolio in order to match the target allocations. Generally, equities are intended to help build the value of the portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds. Compared with CEPPT Strategy 2, this portfolio has a higher allocation to equities than bonds. The trust had a balance of $5,723,042 as of June 30, 2026.

NOTE 2 – CASH AND INVESTMENTS (continued)

Restricted – Investments Held By Section 115 Pension Trust (continued)

The CEPPT Strategy 1 portfolio consists of the following asset classes and corresponding benchmarks:

Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	37%	+/- 5%	MSCI All Country World Index IMI (Net)
Fixed Income	44%	+/- 5%	Bloomberg US Aggregate Bond Index
REITs	14%	+/- 5%	FTSE EPRA/NAREIT Developed Index (Net)
TIPS	5%	+/- 3%	Bloomberg US TIPS Index, Series L
Cash	0%	+/- 2%	
	100%		
	40% - 60% Equity		

Investments Authorized by the California Government Code and the District's Investment Policy
This table identifies the investment types that are authorized by the California Government Code and the District's investment policy. The table also identifies certain provisions of the District's investment policy that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees or the investment of funds within the pension trust that are governed by the provisions of debt agreement of the District and the agreements between the District and the trustee, respectively, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Government Sponsored Agency Securities	5-years	None	None
Negotiable Certificates of Deposit (Negotiable CD)	5-years	30%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
California CLASS	N/A	None	None
CalTRUST Medium-Term Fund	2-years	None	None

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 purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided in the Investment Table that shows the distribution of the District's investments by maturity as of June 30, 2026.

NOTE 2 – CASH AND INVESTMENTS (continued)

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. Presented in the Investment Table are Standard & Poor's credit ratings for the District's investments as of June 30, 2026.

Concentration of Credit Risk
The District's investment policy contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer beyond that stipulated by the California Government Code. There were no investments in any one governmental or non-governmental issuer that represented 5% or more of the District's total investments except for those in LAIF.

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 for similar assets in active markets, and Level 3 inputs are significant unobservable inputs. All of the District's investments were assigned a Level 2 input on the Investment Table.

NOTE 3 – RESTRICTED – INVESTMENTS

Restricted – investments include $5,723,042 held by Section 115 pension trust with the California Employers' Pension Prefunding Trust (CEPPT) at CalPERS.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the fiscal year ended June 30, 2026, were as follows:

Description	Balance July 1, 2025	Additions	Deletions/ Transfers	Balance June 30, 2026
Non-depreciable assets:				
Land	$ 92,948	$ 1,836,830	$ -	$ 1,929,778
Easements	-	145,000	-	145,000
Construction-in-progress	111,832	419,624	(51,476)	479,980
Total non-depreciable assets	204,780	2,401,454	(51,476)	2,554,758
Depreciable assets:				
Building and improvements	8,147,624	-	-	8,147,624
Lift stations	5,582,673	-	-	5,582,673
Gravity lines and force mains	17,818,984	-	-	17,818,984
Resident containers	857,689	-	-	857,689
Refuse CNG Station and facilities	3,459,268	-	-	3,459,268
Vehicles and equipment	8,755,545	347,738	(100,179)	9,003,104
Total depreciable assets	44,621,783	347,738	(100,179)	44,869,342
Accumulated depreciation:				
Building and improvements	(1,252,146)	(299,250)	-	(1,551,396)
Lift stations	(2,415,474)	(132,426)	-	(2,547,900)
Gravity lines and force mains	(6,109,677)	(237,586)	-	(6,347,263)
Resident containers	(571,793)	(85,769)	-	(657,562)
Refuse CNG Station and facilities	(1,609,643)	(158,832)	-	(1,768,475)
Vehicles and equipment	(6,173,256)	(648,368)	100,179	(6,721,445)
Total accumulated depreciation	(18,131,989)	(1,562,231)	100,179	(19,594,041)
Total depreciable assets, net	26,489,794	(1,214,493)	-	25,275,301
Total capital assets, net	$ 26,694,574	$ 1,186,961	$ (51,476)	$ 27,830,059

NOTE 5 – COMPENSATED ABSENCES

Changes in compensated absences for the fiscal year ended June 30, 2026, were as follows:

Balance July 1, 2025	Net Change	Balance June 30, 2026	Due Within One Year	Due in More Than One Year
$ 406,125	$ 33,573	$ 439,698	$ 219,849	$ 219,849

As of June 30, 2026, the total liability for compensated absences was $439,698, of which $219,849 is expected to be paid within one year and is reported as a current liability.

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Summary
The following balances on the statement of net position will be addressed in this footnote as follows:

Description	2026
OPEB related deferred outflows	$ 596,262
Net other post-employment benefits liability (asset)	(1,004,873)
OPEB related deferred inflows	821,430

A. General Information about the OPEB Plan

Plan Description
The District through an agent multiple-employer defined benefit plan, provides retiree medical coverage to eligible retirees and their eligible dependents through the CalPERS Health Program. Eligibility for retiree medical benefits is based on meeting the applicable CalPERS retirement eligibility requirements and commencing CalPERS pension benefits within 120 days of separation from District employment.

For employees hired before January 1, 2025, the District contributes 100% of medical premiums for the retiree, spouse, and other eligible covered dependents up to a stated monthly maximum. The monthly cap for 2026 and 2025 was $2,275 and $2,175 respectively. The District's contribution will continue for the lifetime of the retiree and any surviving eligible spouse.

Effective January 1, 2025, employees hired on or after that date are subject to a PEMHCA vesting schedule under which the District will pay the monthly medical premium for the retiree and any dependents, up to the vested percent of maximum benefits (caps) which vary by coverage level. The vested percentage is based on total years of CalPERS service, subject to a minimum of five years of service with the District to qualify. The vesting percentage is 50% after 10 years of PERS membership, increasing by 5% for each additional year, reaching 100% after 20 years of PERS service. The monthly caps for 2026 are $1,084 (single), $2,057 (two-party) and $2,638 (family)

Funding Policy
The contribution requirements of plan members and the District are established and may be amended by the District and/or the District's Board of Directors. Currently, contributions are not required from plan members. The District has been typically funding this OPEB plan on a pay-as-you-go basis with contributions being made to an OPEB Trust.

Contributions
The plan and its contribution requirements are established by District policy and may be amended by the board of directors. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2026, the District's contributions included implied subsidy of $46,169. Retiree premium health payments of $232,515 were reimbursed by the trust. Due to the funded status of this plan, the actuarially determined contribution did not result in any payments needed for the trust.

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

A. General Information about the OPEB Plan (continued)

Accounting for the Plan
The other post-employment benefit trust is prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments
Investments are reported in the accompanying financial statements at fair value, which is 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. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian with the assistance of a valuation service.

B. Net OPEB Liability
The District's total Net OPEB liability was measured as of June 30, 2025 and was determined by an actuarial valuation as of June 30, 2025. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Actuarial Assumptions
The total Net OPEB liability in the June 30, 2025 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2025
Measurement Date	June 30, 2025
Actuarial Cost Method	Entry age normal, level percentage of payroll
Asset Valuation Method	Fair value of assets as of the measurement date
Actuarial Assumptions:	
Discount Rate	6.25%
Long-Term Expected Rate of Return on Investments	6.25%
Inflation	2.50%
Payroll increases	3.00%
Healthcare Trend Rates	6.5% in 2027, decreasing to 3.9% by 2075
Mortality	CalPERS 2025 Experience Study

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

B. Net OPEB Liability (continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method and best-estimate ranges of expected future real rates of return for each major asset class (expected returns, net of OPEB plan investment expense and inflation). The target allocation and best estimates of geometric real rates of return published by CalPERS for each major class are split for years 1-5 and years 6-20. We assumed that the returns for years 6 through 20 would continue in later years.

		Years 1-5			Years 6-20		
Major Asset Classification	Target Allocation	General Inflation Rate Assumption	1-5 Year Expected Real Rate of Return	Compound Return Yrs 1-5	General Inflation Rate Assumption	6-20 Year Expected Real Rate of Return	Compound Return Years 6-20
Global equity	49.00%	2.40%	3.90%	6.30%	2.40%	4.70%	7.10%
Fixed income	23.00%	2.40%	2.70%	5.10%	2.40%	2.60%	5.00%
Global real estate (REITS)	20.00%	2.40%	3.70%	6.10%	2.40%	4.00%	6.40%
TIPS	5.00%	2.40%	1.70%	4.10%	2.40%	1.40%	3.80%
Commodities	3.00%	2.40%	2.90%	5.30%	2.40%	2.00%	4.40%
Total	100.00%						
Volatility	11.50%		Portfolio	6.10%		Portfolio	6.60%

Discount Rate

The discount rate used to measure the total Net OPEB liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that the District's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total Net OPEB liability.

C. Changes in the Net OPEB Liability

The changes in the total Net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability(Asset)
Balance at June 30, 2025 (Measurement date June 30, 2024)	$ 6,486,791	$ 7,038,266	$ (551,475)
Changes for the year:			
Service cost	259,411	-	259,411
Interest	413,510	-	413,510
Differences in experience	(276,455)	-	(276,455)
Changes in assumption	61,347	-	61,347
Employer contributions	-	57,171	(57,171)
Net investment income	-	856,226	(856,226)
Benefit payments	(266,432)	(266,432)	-
Administrative expenses	-	(2,186)	2,186
Net changes	191,381	644,779	(453,398)
Balance at June 30, 2026 (Measurement date June 30, 2025)	$ 6,678,172	$ 7,683,045	$ (1,004,873)

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

C. Changes in the Net OPEB Liability (continued)

Changes of Assumptions
For Funding (ADCs), the discount rate increased from 6.0% to 6.25% reflecting a change in the long term expected return on trust assets since the June 30, 2023 valuation date.

Change of Benefit Terms
During the fiscal year 2024-25 measurement period, the District adopted a PEMHCA vesting resolution applicable to employees hired on or after January 1, 2025. Because the change is prospective, the change had no impact on the District's OPEB liability as of the measurement date.

Subsequent Events
There were no subsequent events that would materially affect the results presented in this disclosure.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate
The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.25%) or 1 percentage point higher (7.25%) than the current discount rate:

	1% Decrease 5.25%	Discount Rate 6.25%	1% Increase 7.25%
Net OPEB Liability	$ (137,337)	$ (1,004,873)	$ (1,724,181)

Sensitivity of the Total OPEB Liability to Changes in Medical Trend Rates
The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using medical trend rates that are 1-percentage point lower:

	1% Decrease	Healthcare Cost Current Trend	1% Increase
Net OPEB Liability	$ (1,831,320)	$ (1,004,873)	$ 16,151

D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB
For the year ended June 30, 2026, the District recognized OPEB expense of $93,470. At June 30, 2026, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Account Description	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions made after the measurement date	$ 46,169	$ -
Changes in assumptions	251,849	(181,176)
Differences between expected and actual experience	298,244	(383,030)
Differences between projected and actual earnings on OPEB plan investments	-	(257,224)
Total Deferred Outflows/(Inflows) of Resources	$ 596,262	$ (821,430)

NOTE 6 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (continued)
The differences between projected and actual earnings on plan investments is amortized over five years. The District reported $46,169 as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2027. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Amortization Period Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2027	$ 122,483
2028	(141,390)
2029	(114,640)
2030	(89,866)
2031	(10,836)
Thereafter	(37,088)
Total	$ (271,337)

At June 30, 2026, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2026.

NOTE 7 – PENSION PLAN

Summary
The following balances on the statement of net position will be addressed in this footnote as follows:

Description	2026
Pension related deferred outflows	$ 1,324,330
Net pension liability (asset)	(2,038,439)
Pension related deferred inflows	768,137

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by agencies of the State of California known as the California Public Employees' Retirement System (CalPERS), or "The Plan".

NOTE 7 – PENSION PLAN (continued)

A. General Information about the Pension Plan

Plan Description, Benefits Provided and Employees Covered
The Plan is an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the Plan's June 30, 2024 Annual Actuarial Valuation Report (funding valuation). Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website.

The Plans
The District has engaged with CalPERS to administer the following pension plans for its employees (members):

	Miscellaneous Plans		
	Classic Tier 1	**Classic Tier 2**	**PEPRA Tier 2**
Hire date	Prior to January 1, 2013	On or after July 1, 2009	On or after January 1, 2013
Benefit formula	3.0% @ 60	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 67 & up	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	1.426% to 2.418%	1.0% to 2.5%
Required member contribution rates	8.000%	7.000%	7.750%
Required employer contribution rates – FY 2025	17.390%	12.580%	7.960%

At June 30, 2025 measurement date, the following members were covered by the benefit terms:

	Miscellaneous Plans			
Plan Members	**Classic Tier 1**	**Classic Tier 2**	**PEPRA Tier 2**	**Total**
Active members	11	1	20	32
Transferred and terminated members	9	-	1	10
Retired members and beneficiaries	43	1	-	44
Total plan members	63	2	21	86

NOTE 7 – PENSION PLAN (continued)

A. General Information about the Pension Plan (continued)

Benefits Provided
CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members, who must be public employees and beneficiaries. Benefits are based on plan formulas, years of credited service, age and final compensation. The cost-of-living adjustments for each Plan are applied as specified by the Public Employees' Retirement Law.

Contribution Description
Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. For classic members only, the member portion is paid by the District.

Contributions for the year ended June 30, 2026, were as follows:

	Miscellaneous Plans			
Contribution Type	Classic Tier 1	Classic Tier 2	PEPRA Tier 2	Total
Contributions – employer	$ 175,220	$ 13,398	$ 181,743	$ 370,361
Contributions – member	80,613	7,456	176,989	265,058
Total contributions	$ 255,833	$ 20,854	$ 358,732	$ 635,419

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

Proportionate Share of Net Pension Liability and Pension Expense
The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2025, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2024, rolled forward to June 30, 2025, using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

NOTE 7 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Proportionate Share of Net Pension Liability and Pension Expense (continued)
The following table shows the District's proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2025 (Measurement Date):

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2024 (Measurement Date)	$ 21,166,868	$ 21,833,078	$ (666,210)
Balance as of June 30, 2025 (Measurement Date)	$ 22,357,546	$ 24,395,985	$ (2,038,439)
Change in Plan Net Pension Liability	$ 1,190,678	$ 2,562,907	$ (1,372,229)

The District's proportionate share percentage of the net pension liability over the measurement period for the fiscal year ended June 30, 2026, was as follows:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2026	Fiscal Year Ending June 30, 2025	Change Increase/ (Decrease)
Measurement Date	June 30, 2025	June 30, 2024	
Percentage of Risk Pool Net Pension Liability	-0.051099%	-0.013774%	-0.037325%
Percentage of Plan Net Pension Liability	-0.051099%	-0.013774%	-0.037325%

For the year ended June 30, 2026, the District recognized pension expense of $412,561. At June 30, 2026, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Account Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made after the measurement date	$ 370,361	$ -
Difference between actual and proportionate share of employer contributions	453,503	(203,161)
Adjustment due to differences in proportions	224,642	(320,722)
Differences between expected and actual experience	-	(244,254)
Differences between projected and actual earnings on pension plan investments	275,824	-
Changes in assumptions	-	-
Total Deferred Outflows/(Inflows) of Resources	$ 1,324,330	$ (768,137)

NOTE 7 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Proportionate Share of Net Pension Liability and Pension Expense (continued)
The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.8 years.

An amount of $370,361 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2027. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction to pension expense as follows:

Amortization Period Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2027	$ (217,180)
2028	151,422
2029	146,296
2030	105,294
Total	$ 185,832

Actuarial Methods and Assumptions Used to Determine Total Pension Liability
The June 30, 2024 valuation was rolled forward to determine the June 30, 2025 total pension liability based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Price Inflation Salary Increases	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	The lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.30% thereafter

NOTE 7 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account 20-year market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and combined with risk estimates to project compound (geometric) returns over the long term. The expected real rates of return by asset class are as follows:

Asset class[1]	Assumed Asset Allocation	Long-Term Expected Real Rate of Return[1,2]
Public Equity	37.0%	4.56%
Private Equity	17.0%	5.56%
Fixed Income	28.0%	2.53%
Real Assets	15.0%	3.03%
Private Debt	8.0%	4.93%
Strategic Leverage	-5.0%	1.40%
	100.0%	

[1] Figures are based on the 2024 Mid-Cycle Asset Liability Management study.
[2] An expected annual rate of price inflation of 2.30% was used for this period.

NOTE 7 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Discount Rate
The discount rate used to measure the total pension liability as of June 30, 2025, was 6.90%. This is based on the long-term expected rate of return on plan assets and is net of investment expenses but not reduced for administrative expenses. In determining the long-term expected rate of return, CalPERS took into account 20-year market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and combined with risk estimates to project compound (geometric) returns over the long term.

Subsequent Events
On November 19, 2025, the CalPERS Board of Administration adopted new actuarial assumptions based on the recommendations in the November 2025 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases, and inflation assumptions, and various other assumptions for public agencies. These new assumptions will be effective as of the June 30, 2025, valuation date and reflected in the June 30, 2026, GASB accounting valuation reports.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate
The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

	Plan's Net Pension Liability/(Asset)		
Plan Type	Discount Rate - 1% 5.90%	Current Discount Rate 6.90%	Discount Rate + 1% 7.90%
CalPERS – Miscellaneous Plan	978,661	$ (2,038,439)	$ (4,521,480)

Pension Plan Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

C. Payable to the Pension Plans
At June 30, 2026, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the year ended June 30, 2026.

NOTE 8 – RISK MANAGEMENT POOL

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. Further information about the SDRMA is as follows:

A.	**Entity**	SDRMA
B.	**Purpose**	To pool member contributions and realize the advantages of self-insurance
C.	**Participants**	As of June 30, 2026: 511 member agencies for Property/Liability 432 member agencies for Workers' Compensation
D.	**Governing board**	Seven representatives employed by members
E.	**District payments for FY 2026:**	
	Property/Liability policy	$580,550
	Workers' compensation policy	$159,195
F.	**Condensed financial information**	June 30, 2026

Statement of financial position:	**June 30, 2026**
Total assets	$ 205,646,936
Deferred outflows	1,238,405
Total liabilities	87,864,866
Deferred inflows	461,199
Net position	$ 118,559,276
Statement of revenues, expenses and changes in net position:	
Total revenues	$ 139,666,401
Total expenses	(129,236,397)
Change in net position	10,430,004
Beginning – net position	108,129,272
Ending – net position	$ 118,559,276

At June 30, 2025, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing limits of $10,000,000, combined single limit at $10,000,000 per occurrence.

NOTE 8 – RISK MANAGEMENT POOL (continued)

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.

- Property loss is paid at the replacement cost for property on file, if replaced within three years after the loss, otherwise paid on an actual cash value basis, to a combined total of $1.2 billion per occurrence, subject to a $1,000 deductible per occurrence.

- Boiler and machinery coverage for the replacement cost up to $200 million per occurrence, subject to a $1,000 deductible per occurrence.

- Public officials' personal liability up to $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of $500 per claim.

- Workers' compensation insurance per statutory requirements and Employer's Liability Coverage up to $5 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2026, 2025 and 2024. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2026, 2025 and 2024.

NOTE 9 – RISK DISCLOSURE: CONCENTRATION OF REVENUE SOURCE (GASB STATEMENT No. 102)

The Sanitation District derives approximately 81% of its operating revenue from residential sanitation service charges collected through the County's property tax roll. These charges are levied as special assessments pursuant to applicable laws and are collected in the same manner and at the same time as general property taxes. This structure creates a concentration of revenue dependency on the County's property tax collection system, as well as the timely payment of property taxes by residential property owners within the District's service area.

Although the District benefits from the historically high collection rates of secured property taxes in the County (typically exceeding 98%), economic downturns, changes in property values, or delays in tax collections could materially affect the timing and availability of funds to support operations and debt service.

Additionally, future rate adjustments for service charges are subject to the procedural requirements of Proposition 218, which may constrain the District's ability to increase rates in response to rising operational or capital costs.

The District monitors tax collection trends and maintains reserves in accordance with its financial policies to mitigate the potential impact of delayed or reduced revenues.

In accordance with GASB Statement No. 102, Risk Disclosures, this note serves to disclose the concentration of revenue and associated risks that could significantly impact the District's financial position and results of operations.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Construction Contracts

The District enters into various agreements with private parties for the installation, improvement, or modification of infrastructure, facilities and treatment systems within its service area. These projects are financed through District's reserves. As of June 30, 2026, the District has committed approximately $301,204 to complete projects currently in construction-in-progress.

Excluded Leases – Short-Term Leases and De Minimis Leases

The District does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12-months (or less), including any options to extend, regardless of their probability of being exercised.

Also, d*e minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

NOTE 11 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 17, 2026, the date which the financial statements were available to be issued.

Required Supplementary Information

MIDWAY CITY SANITARY DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2026

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Measurement Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability
June 30, 2016	0.02076%	$ 1,796,294	$ 1,550,911	115.82%	115.82%
June 30, 2017	0.00143%	142,113	1,610,995	8.82%	73.31%
June 30, 2018	-0.02800%	(27,430)	1,707,287	-1.61%	75.26%
June 30, 2019	0.00147%	150,820	1,898,709	7.94%	75.26%
June 30, 2020	-0.00172%	(72,379)	1,892,394	-3.82%	100.42%
June 30, 2021	-0.14582%	(2,768,839)	1,977,383	-140.03%	115.34%
June 30, 2022	0.01308%	611,954	1,978,586	30.93%	96.88%
June 30, 2023	0.01997%	998,527	2,214,503	45.09%	95.08%
June 30, 2024	-0.01377%	(666,210)	2,568,816	-25.93%	103.15%
June 30, 2025	-0.05110%	(2,038,439)	3,038,454	-67.09%	109.12%

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
From fiscal year June 30, 2015 and June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014, measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015, measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:
There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:
The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2022:
There were no significant changes in assumptions.

From fiscal year June 30, 2022 to June 30, 2023:
The discount rate was reduced from 7.15% to 6.90% and the inflation rate was reduced from 2.50% to 2.30%.

From fiscal year June 30, 2023 to June 30, 2024:
There were no significant changes in assumptions.

From fiscal year June 30, 2024 to June 30, 2025:
There were no significant changes in assumptions.

From fiscal year June 30, 2025 to June 30, 2026:
There were no significant changes in assumptions.

MIDWAY CITY SANITARY DISTRICT

Schedule of the District's Contributions to the Defined Benefit Pension Plan
For the Year Ended June 30, 2026

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2017	$ 259,509	$ (2,127,807)	$ (1,868,298)	1,610,995	132.08%
June 30, 2018	266,966	(266,966)	-	1,707,287	15.64%
June 30, 2019	291,329	(317,793)	(26,464)	1,898,709	16.74%
June 30, 2020	231,944	(726,722)	(494,778)	1,892,394	38.40%
June 30, 2021	257,924	(413,927)	(156,003)	1,977,383	20.93%
June 30, 2022	255,161	(255,161)	-	1,978,586	12.90%
June 30, 2023	269,678	(269,678)	-	2,214,503	12.18%
June 30, 2024	302,015	(1,790,766)	(1,488,751)	2,568,816	69.71%
June 30, 2025	338,873	(812,129)	(473,256)	3,038,454	26.73%
June 30, 2026	370,361	(370,361)	-	3,323,028	11.15%

Notes to Schedule:

Fiscal Year	Valuation Date	Actuarial Cost Method	Asset Valuation Method	Inflation	Investment Rate of Return
June 30, 2017	June 30, 2015	Entry Age	Fair Value	2.75%	7.65%
June 30, 2018	June 30, 2016	Entry Age	Fair Value	2.75%	7.15%
June 30, 2019	June 30, 2017	Entry Age	Fair Value	2.50%	7.15%
June 30, 2020	June 30, 2018	Entry Age	Fair Value	2.50%	7.15%
June 30, 2021	June 30, 2019	Entry Age	Fair Value	2.50%	7.15%
June 30, 2022	June 30, 2020	Entry Age	Fair Value	2.50%	7.15%
June 30, 2023	June 30, 2021	Entry Age	Fair Value	2.30%	6.90%
June 30, 2024	June 30, 2022	Entry Age	Fair Value	2.30%	6.90%
June 30, 2025	June 30, 2023	Entry Age	Fair Value	2.30%	6.90%
June 30, 2026	June 30, 2024	Entry Age	Fair Value	2.30%	6.90%

Amortization Method	Level percentage of payroll, closed
Salary Increases	Depending on age, service, and type of employment
Investment Rate of Return	Net of pension plan investment expense, including inflation
Retirement Age	50 years (2.0%@55 and 3.0% @60), 52 years (2%@62)

MIDWAY CITY SANITARY DISTRICT

Schedule of Changes in the District's Net OPEB Liability and Related Ratios
For the Year Ended June 30, 2026

	Last Ten Fiscal Years*				
Fiscal Year Ended	**June 30, 2026**	**June 30, 2025**	**June 30, 2024**	**June 30, 2023**	**June 30, 2022**
Measurement Date	**June 30, 2025**	**June 30, 2024**	**June 30, 2023**	**June 30, 2022**	**June 30, 2021**
Total OPEB liability:					
Service cost	$ 259,411	$ 261,618	$ 202,087	$ 171,620	$ 181,650
Interest	413,510	366,326	350,112	333,422	339,606
Changes of assumptions	61,347	(192,994)	(77,148)	406,611	144,567
Differences between expected and actual experience	(276,455)	332,062	108,993	-	(577,952)
Benefit payments	(266,432)	(248,088)	(213,949)	(163,678)	(175,237)
Net change in total OPEB liability	191,381	518,924	370,095	747,975	(87,366)
Total OPEB liability - beginning	6,486,791	5,967,867	5,597,772	4,849,797	4,937,163
Total OPEB liability - ending	6,678,172	6,486,791	5,967,867	5,597,772	4,849,797
Plan fiduciary net position:					
Contributions - employer	57,171	54,292	213,949	97,558	38,567
Net investment income	856,226	714,760	393,466	(946,753)	1,560,478
Administrative expense	(2,186)	(2,121)	(1,780)	(1,798)	(2,145)
Benefit payments	(266,432)	(248,088)	(213,949)	(163,678)	(175,237)
Net change in plan fiduciary net position	644,779	518,843	391,686	(1,014,671)	1,421,663
Plan fiduciary net position - beginning	7,038,266	6,519,423	6,127,737	7,142,408	5,720,745
Plan fiduciary net position - ending	7,683,045	7,038,266	6,519,423	6,127,737	7,142,408
District's net OPEB liability	$ (1,004,873)	$ (551,475)	$ (551,556)	$ (529,965)	$ (2,292,611)
Plan fiduciary net position as a percentage of the total OPEB liability	115.05%	108.50%	109.24%	109.47%	147.27%
Covered-employee payroll	$ 3,014,888	$ 2,568,816	$ 2,598,271	$ 2,310,720	$ 2,265,018
District's net OPEB liability as a percentage of covered-employee payroll	-33.33%	-21.47%	-21.23%	-22.94%	-101.22%

Notes to Schedule:

Benefit Changes:

Measurement Date June 30, 2021 – There were no changes in benefits
Measurement Date June 30, 2022 – There were no changes in benefits
Measurement Date June 30, 2023 – There were no changes in benefits
Measurement Date June 30, 2024 – There were no changes in benefits
Measurement Date June 30, 2025 – There were no changes in benefits

Changes in Assumptions:

Measurement Date June 30, 2021 – Inflation rate decreased from 2.75% to 2.50% and salary increases changed from 3.25% to 3.00%.
Measurement Date June 30, 2022 – Discount rate decreased from 6.75% to 6.15%.
Measurement Date June 30, 2023 – Discount rate decreased from 6.15% to 6.00%.
Measurement Date June 30, 2024 – Discount rate increased from 6.00% to 6.25%.
Measurement Date June 30, 2025 – There were no changes in assumptions

* Fiscal year 2018 was the first year of implementation; therefore, only nine years are shown.

MIDWAY CITY SANITARY DISTRICT

Schedule of Changes in the District's Net OPEB Liability and Related Ratios (continued)
For the Year Ended June 30, 2026

Last Ten Fiscal Years*

Fiscal Year Ended	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**
Measurement Date	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**	**June 30, 2017**
Total OPEB liability:				
Service cost	$ 175,932	$ 167,394	$ 162,126	$ 157,023
Interest	317,915	351,202	329,262	307,649
Changes of assumptions	-	(57,184)	-	-
Differences between expected and actual experience	-	(781,423)	-	-
Benefit payments	(181,215)	(182,104)	(161,138)	(138,039)
Net change in total OPEB liability	312,632	(502,115)	330,250	326,633
Total OPEB liability - beginning	4,624,531	5,126,646	4,796,396	4,469,763
Total OPEB liability - ending	4,937,163	4,624,531	5,126,646	4,796,396
Plan fiduciary net position:				
Contributions - employer	181,215	182,104	1,567,225	6,972
Net investment income	195,303	321,380	299,068	350,153
Administrative expense	(2,700)	(1,116)	(2,060)	(1,771)
Other expenses	-	-	(4,643)	
Benefit payments	(181,215)	(182,104)	(161,138)	(138,039)
Net change in plan fiduciary net position	192,603	320,264	1,698,452	217,315
Plan fiduciary net position - beginning	5,528,142	5,207,878	3,509,426	3,292,111
Plan fiduciary net position - ending	5,720,745	5,528,142	5,207,878	3,509,426
District's net OPEB liability	$ (783,582)	$ (903,611)	$ (81,232)	$ 1,286,970
Plan fiduciary net position as a percentage of the total OPEB liability	115.87%	119.54%	101.58%	73.17%
Covered-employee payroll	$ 2,219,965	$ 2,004,990	$ 1,707,287	$ 1,610,995
District's net OPEB liability as a percentage of covered-employee payroll	-35.30%	-45.07%	-4.76%	79.89%

Notes to Schedule:

Benefit Changes:

Measurement Date June 30, 2017 – There were no changes in benefits
Measurement Date June 30, 2018 – There were no changes in benefits
Measurement Date June 30, 2019 – There were no changes in benefits
Measurement Date June 30, 2020 – There were no changes in benefits

Changes in Assumptions:

Measurement Date June 30, 2017 – There were no changes in assumptions
Measurement Date June 30, 2018 – There were no changes in assumptions
Measurement Date June 30, 2019 – The probabilities of retirement, termination, and mortality have been changed from the 2014 CalPERS OPEB Assumptions Model to the 2017 CalPERS OPEB Assumptions Model.
Measurement Date June 30, 2020 – Inflation rate decreased from 2.75% to 2.50% and salary increases changed from 3.25% to 3.00%.

* Fiscal year 2018 was the first year of implementation; therefore, only nine years are shown.

MIDWAY CITY SANITARY DISTRICT

Schedule of Contributions – Other Post-Employment Benefits (OPEB) Plan
For the Year Ended June 30, 2026

	Last Ten Fiscal Years*				
Fiscal Year Ended	**June 30, 2026**	**June 30, 2025**	**June 30, 2024**	**June 30, 2023**	**June 30, 2022**
Actuarially determined contribution	$ 259,422	$ 251,123	$ 231,595	$ 58,057	$ 52,539
Contributions in relation to the actuarially determined contributions	(46,169)	(57,371)	(54,292)	(213,949)	(97,558)
Contribution deficiency (excess)	$ 213,253	$ 193,752	$ 177,303	$ (155,892)	$ (45,019)
Covered employee payroll	$ 3,395,031	$ 3,014,888	$ 2,568,816	$ 2,598,271	$ 2,310,720
Contributions as a percentage of covered employee payroll	1.36%	1.90%	2.11%	8.23%	4.22%

Notes to Schedule:

Valuation Date	June 30, 2023	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2021
Methods and Assumptions Used to Determine Contribution Rates:					
Actuarial cost method Entry age normal	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method Closed period, level percent of pay	(1)	(1)	(1)	(1)	(1)
Amortization period	20-years	20-years	20-years	20-years	20-years
Asset valuation method	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
Discount rate	6.25%	6.25%	6.00%	6.15%	6.75%
Inflation	2.50%	2.50%	2.50%	2.50%	2.50%
Payroll increases	3.00%	3.00%	3.00%	3.00%	3.00%
Mortality	(4)	(4)	(4)	(3)	(3)
Retirement	(5)	(5)	(5)	(5)	(5)

(1) Closed period, level percent of pay
(2) CalPERS 2014 Experience Study
(3) CalPERS 2017 Experience Study
(4) CalPERS 2021 Experience Study
(5) CalPERS Public Agency Miscellaneous (2.0% @55 and 2% @60), 52 years (2% @62)

* Fiscal year 2018 was the first year of implementation; therefore, only nine years are shown.

MIDWAY CITY SANITARY DISTRICT

Schedule of Contributions – Other Post-Employment Benefits (OPEB) Plan (continued)
For the Year Ended June 30, 2026

Last Ten Fiscal Years*

Fiscal Year Ended	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**
Actuarially determined contribution	$ 138,060	$ 136,307	$ 176,711	$ 256,997
Contributions in relation to the actuarially determined contributions	(38,567)	(181,215)	(182,104)	(1,579,105)
Contribution deficiency (excess)	$ 99,493	$ (44,908)	$ (5,393)	$ (1,322,108)
Covered employee payroll	$ 2,265,018	$ 2,219,965	$ 2,004,990	$ 1,707,287
Contributions as a percentage of covered employee payroll	1.70%	8.16%	9.08%	92.49%
Notes to Schedule:				
Valuation Date	June 30, 2019	June 30, 2019	June 30, 2017	June 30, 2017
Methods and Assumptions Used to Determine Contribution Rates:				
Actuarial cost method Entry age normal	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method Closed period, level percent of pay	(1)	(1)	(1)	(1)
Amortization period	20-years	20-years	20-years	20-years
Asset valuation method	Fair Value	Fair Value	Fair Value	Fair Value
Discount rate	6.75%	6.75%	6.75%	6.75%
Inflation	2.75%	2.75%	2.75%	2.75%
Payroll increases	3.25%	3.25%	3.25%	3.25%
Mortality	(3)	(3)	(2)	(2)
Retirement	(5)	(5)	(5)	(5)

(1) Closed period, level percent of pay
(2) CalPERS 2014 Experience Study
(3) CalPERS 2017 Experience Study
(4) CalPERS 2021 Experience Study
(5) CalPERS Public Agency Miscellaneous (2.0% @55 and 2% @60), 52 years (2% @62)

* Fiscal year 2018 was the first year of implementation; therefore, only nine years are shown.

Other Independent Auditors' Report

NIGRO & NIGRO PC

A Professional Accountancy Corporation

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Midway City Sanitary District
Westminster, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Midway City Sanitary District (District) as of and for the years ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 17, 2026.

Report on Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Shannon Bishop, CPA | Peter Glenn, CPA, CFE | Paul J. Kaymark, CPA
Jessica Miller, CPA | Angelika Vartikyan, CPA | Jared Solmonsen, CPA | Oscar Gonzalez, CFE

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Report on Compliance and Other Matters

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

Purpose of this Report

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

Murrieta, California
November 17, 2026