

**East Palo Alto
Sanitary District**

Annual Financial Report
June 30, 2023

EAST PALO ALTO SANITARY DISTRICT

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david farnsworth cpa
ACCOUNTING • ADVISORY • ASSURANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
East Palo Alto Sanitary District
East Palo Alto, California

Opinion

We have audited the accompanying financial statements of the East Palo Alto Sanitary District as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the East Palo Alto Sanitary District's basic 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 respective financial position of the East Palo Alto Sanitary District, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof 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. 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 East Palo Alto Sanitary 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.

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 East Palo Alto Sanitary District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted 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, 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 East Palo Alto Sanitary 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 East Palo Alto Sanitary 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, the schedule of changes in the net District's net OPEB liability and related ratios, the schedule of District's contributions for OPEB, the schedule of the District's proportionate share of the net pension liability, and the schedule of the District's pension contributions, as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

David Farnsworth, CPA

Dublin, California
January 2, 2024

EAST PALO ALTO SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2023

Overview of the Financial Statements

This management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) the financial statements and 2) notes to the financial statements that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the District report information about the District using accounting methods similar to those used by private-sector companies. These statements provide both long-term and short-term information about the District's overall financial status.

The statement of net position presents information on all of the District's assets deferred outflows of resources and liabilities deferred inflows of resources, with the difference between the four reported as net position. This statement or evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District provides information about the nature and the amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It provides one way to measure the financial health of the District by providing the basis however, there are several outside nonfinancial factors that need to be considered, such as changing economic conditions, population and customer growth, and new or changed rules and regulations.

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 whether the District has successfully recovered all its cost through its user fees.

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, noncapital financing, investing, and financing activities. This statement 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 Analysis of the District

As previously noted, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$31.27 million at the close of the most recent fiscal year. The largest portion of the District's net position (68%) reflect its unrestricted net position. Net investment in capital assets consist of 26% of total net position (e.g., sewers, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding in the amount of \$.07 million as of June 30, 2023. These capital assets are used primarily in the collection and treatment of wastewater throughout the District's service area. The related debt will be repaid with resources provided by system users through rates and fees. Restricted net position make up 6% of total net position.

EAST PALO ALTO SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2023

Table A
Summary of Net Position

A summary of the statement of net position as of June 30, 2023 and 2022 is shown in the following table:

	<u>2023</u>	<u>2022</u>	<u>Variance</u>
Current assets	\$23,410,385	\$24,398,898	\$ (988,513)
Noncurrent assets	2,282,781	2,161,410	121,371
Net capital assets	<u>8,058,294</u>	<u>6,886,195</u>	<u>1,172,099</u>
Total assets	<u>33,751,460</u>	<u>33,446,503</u>	<u>304,957</u>
Deferred outflows	<u>713,497</u>	<u>1,823,058</u>	<u>(1,109,561)</u>
Current liabilities	487,619	2,259,855	(1,772,236)
Noncurrent liabilities	<u>865,556</u>	<u>1,301,075</u>	<u>(435,519)</u>
Total liabilities	<u>1,353,175</u>	<u>3,560,930</u>	<u>(2,207,755)</u>
Deferred inflows	<u>1,843,303</u>	<u>1,591,513</u>	<u>251,790</u>
Net position	<u>\$31,268,479</u>	<u>\$30,117,118</u>	<u>\$ 1,151,361</u>

Net position increased by \$1,115,361. The increases are a combination of income in the form of sewer service charges, connection fee charges, property taxes, and intergovernmental revenues.

Current assets decreased by \$988,513 compared to the prior year and the change is primarily due to:

- Cash decreased by \$1,912,252
- Receivables increased by \$127,053
- Prepaid items increased by \$796,686

Noncurrent assets increased by \$121,371 and capital assets, net of accumulated depreciation increased by \$1,172,099 compared to the prior year and the change is primarily due to:

- Restricted cash increased by \$427,598
- Notes receivable decreased by \$5,261
- Net OPEB asset decreased by \$339,483 and reported as net OPEB liability with a balance of \$38,517
- Construction in progress increased by \$1,572,401, furniture and equipment increased by \$6,918, and accumulated depreciation increased by \$407,220

Deferred outflows decreased by \$1,109,561 compared to the prior year and the change is primarily due to:

- Pension related deferred outflows decreased by \$1,259,803
- OPEB related deferred outflows increased by \$150,242

Current liabilities decreased by \$1,772,236 compared to the prior year and the change is primarily due to:

- Accounts payable and accrued liabilities decreased by \$201,538
- Unearned income decreased by \$1,572,402
- Current portion of long-term debt increased by \$1,704

Noncurrent liabilities decreased by \$435,519 compared to the prior year and the change is primarily due to:

- Long term debt decreased by \$70,378
- Net pension liability decreased by \$403,658
- Net OPEB liability previously reported as Net OPEB assets increased by \$339,483

EAST PALO ALTO SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2023

Deferred inflows increased by \$251,790 compared to the prior year and the change in primarily due to:

- Pension related deferred inflows increased by \$445,464
- OPEB related deferred inflows decreased by \$193,674

Table B
Summary of Revenues
Expenses and Changes in Net Position

	<u>2023</u>	<u>2022</u>	<u>Variance</u>
Total operating revenues	\$ 6,565,750	\$ 4,966,634	\$ 1,599,116
Total operating expenses	(7,488,996)	(4,662,127)	(2,826,869)
Operating income (loss)	(923,246)	304,507	(1,227,753)
Total nonoperating revenues and expenses	<u>2,074,607</u>	<u>1,563,114</u>	<u>511,493</u>
Increase in net position	1,151,361	1,867,621	(716,260)
Net position, beginning of year	<u>30,117,118</u>	<u>28,249,497</u>	<u>1,867,621</u>
Net position, end of year	<u>\$31,268,479</u>	<u>\$30,117,118</u>	<u>\$ 1,151,361</u>

While the Summary of Net Position (Table A) shows the change in financial position, (Table B) shows the Summary of Revenues, Expenses, and Changes in Net Position and provides details as to the nature and source of these changes. Table B shows that during 2023 total operating revenues increased by \$1,599,116. Total operating expenses increased by \$2,826,869. Non-operating revenue and expenses increased by \$511,493. The major factors which contributed to these results include:

- The increase in operating revenues of \$1,599,116 was due to a decrease in sewer service charges of \$29,988, an increase in developer fees of \$1,535,358, a decrease in connection fees of \$6,409, and an increase of \$100,155 in other revenues
- The increase in operating expenses of \$2,826,869 was due to an increase in personnel services of \$849,978, an increase of \$1,797,946 in purchased services, an increase of \$67,787 of utilities, fuel, and supplies, and an increase in \$43,098 in depreciation expense, and an increase of \$68,060 in other expenses.
- The increase in nonoperating revenues (expenses) of \$511,493 was due to property taxes and intergovernmental increased by \$158,250, investment earnings increased by \$324,841, and interest expense increased by \$28,402.

BUDGETARY HIGHLIGHTS

The District has an annual operating budget that is approved by its Board of Directors. Capital projects are approved on a project-by-project basis within the annually approved capital budget. Total budgeted revenues were reported in the amount of \$5,777,121. Total budgeted expenses were reported in the amount of \$17,351,900.

EAST PALO ALTO SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2023

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2023, the District's investment in capital assets amounted to \$8.058 million and \$6.886 million (net of accumulated depreciation) as shown in Table C for 2023 and 2022, respectively. In 2023, the District spent \$1,572,402 on a current construction project and \$6,918 on furniture and equipment. Additional information on the District's capital assets can be found in Note 3 to the Financial Statements.

Table C
Capital Assets

	<u>2023</u>	<u>2022</u>	<u>Variance</u>
Land	\$ 184,601	\$ 184,601	\$ -
Construction in progress	2,208,645	636,243	1,572,402
Cured in place pipe	1,474,518	1,474,518	-
Sewer collection facilities	8,216,243	8,216,243	-
Buildings	2,587,577	2,587,577	-
Furniture and equipment	2,175,995	2,169,077	6,918
Accumulated depreciation	<u>(8,789,284)</u>	<u>(8,382,064)</u>	<u>(407,220)</u>
Net capital assets	<u>\$ 8,058,295</u>	<u>\$ 6,886,195</u>	<u>\$ 1,172,100</u>

Debt Administration

The District has financed its construction program primarily through the issuance of revenue bonds. Additional information on the District's long-term debt can be found in Note 5 to the financial statements.

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS AND RATES

The service area of the District is best described as mature. The District is not in a growth situation but one in which the system is continually televised, upgraded, and repaired given budgetary constraints.

Requests for Information

The financial report is designed to provide a general overview of the District's finances and operations for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the General Manager
East Palo Alto Sanitary District
901 Weeks Street
East Palo Alto, CA 94303

FINANCIAL STATEMENTS

EAST PALO ALTO SANITARY DISTRICT

Statement of Net Position

June 30, 2023

ASSETS

Current assets:	
Cash and investments	\$ 22,423,662
Interest receivable	190,037
Prepaid items	796,686
Total current assets	<u>23,410,385</u>
Noncurrent assets:	
Restricted cash and investments	260,541
Restricted cash and investments- held by pension trust	2,000,000
Notes receivable	22,240
Capital assets:	
Non depreciable capital assets	2,393,245
Capital assets, net of depreciation	5,665,049
Total non-current assets	<u>10,341,075</u>
Total assets	<u><u>33,751,460</u></u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related	376,221
OPEB related	337,276
Total deferred outflows of resources	<u>713,497</u>

LIABILITIES

Current liabilities:	
Accounts payable	110,776
Accrued liabilities	45,924
Unearned income	260,541
Current portion of long-term liabilities	70,378
Total current liabilities	<u>487,619</u>
Noncurrent liabilities:	
Net pension liability	827,039
Net OPEB liability	38,517
Total long-term liabilities	<u>865,556</u>
Total liabilities	<u>1,353,175</u>

DEFERRED INFLOWS OF RESOURCES

Pension related	1,798,576
OPEB related	44,727
Total deferred inflows of resources	<u>1,843,303</u>

NET POSITION

Net investment in capital assets	7,987,916
Restricted	2,000,000
Unrestricted	21,280,563
Total Net Position	<u><u>\$ 31,268,479</u></u>

The accompanying notes are an integral part of these financial statements.

EAST PALO ALTO SANITARY DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023

OPERATING INCOME:

Charges for services:	
Sewer service charges	\$ 4,801,292
Developer fees	1,579,978
Connection fees	41,244
Miscellaneous	143,236
Total Operating Revenues	6,565,750

OPERATING EXPENSES:

Personnel services	1,983,885
Purchased services	4,565,309
Utilities, fuel and supplies	154,098
Depreciation	407,222
Other expenses	378,482
Total operating expenses	7,488,996
Operating income	(923,246)

NONOPERATING REVENUES (EXPENSES):

Property taxes	1,036,214
Intergovernmental	464,885
Investment earnings	580,028
Interest expense	(6,520)
Total Nonoperating Revenues (Expenses)	2,074,607

Change in Net Position	1,151,361
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Net Position - Beginning	30,117,118
Net Position - Ending	\$ 31,268,479

The accompanying notes are an integral part of these financial statements.

EAST PALO ALTO SANITARY DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 4,993,348
Payments to suppliers	(6,110,996)
Payments to employees	(671,826)
Net cash provided by noncapital financing activities	<u>(1,789,474)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property taxes	1,036,214
Intergovernmental	464,885
Net cash provided by noncapital financing activities	<u>1,501,099</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(1,579,321)
Principal paid on debt	(68,674)
Interest paid on debt	(6,520)
Collections on note receivable	5,261
Net cash used for capital and related financing activities	<u>(1,649,254)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment earnings	452,975
Net cash provided by investing activities	<u>452,975</u>

Net increase in cash and cash equivalents (1,484,654)

Cash and cash equivalents at beginning of year (including \$1,832,943 for the sewer fund reported in restricted accounts) 26,168,857

Cash and cash equivalents at end of year (including \$2,260,541 for the sewer fund reported in restricted accounts) \$ 24,684,203

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ (923,246)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	407,223
Decrease in prepaid items	(796,686)
(Decrease) in accounts payable and accrued expenses	(201,538)
Increase in unearned income	(1,572,402)
Increase in net pension liability and related deferrals	1,301,607
Increase in net other postemployment benefits liability and related deferrals	(4,432)
Net cash provided by operating activities	<u>\$ (1,789,474)</u>

The accompanying notes are an integral part of these financial statements.

EAST PALO ALTO SANITARY DISTRICT
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June 30, 2023

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EAST PALO ALTO SANITARY DISTRICT
Notes to the Financial Statements
June 30, 2023

Note 1 – Summary of Significant Accounting Policies

A. Description of the Reporting Entity

The primary purpose of the East Palo Alto Sanitary District (District) is to provide safe, efficient and cost-effective sanitary services to portions of East Palo Alto and Menlo Park, in San Mateo County. The collection system carries wastewater from the District's service area to the Palo Alto treatment plant where it is treated and disposed of in a manner which meets federal and state standards.

The District is governed by a five-member Board of Directors elected at large to four-year terms by residents within the District.

The financial statements of East Palo Alto Sanitary District include only the financial activities of the District. The District management considered all potential component units for inclusion in the reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. The District concluded that there are no potential component units which should be included in the reporting entity.

B. Basis of Presentation and Accounting

Enterprise fund activities are financed in whole or in part by fees charged to external parties and are accounted for in an enterprise fund. Enterprise funds maintain their records using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows.

The statement of net position and the statement of revenues, expenses, and changes in net position displays information about the primary government (the District).

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values.

C. Budgets and Budgetary Accounting

The District adopts an operating budget at the beginning of each year for the following fiscal year. The District General Manager is authorized to transfer any unencumbered amounts from one department to another within the same major account and to transfer any unencumbered appropriation from one line-item account to another within the same major account. The major accounts are defined as salaries and employee benefits, maintenance and operation, capital outlay and reserves. Any additional appropriations require approval by the Board of Directors.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

EAST PALO ALTO SANITARY DISTRICT
Notes to the Financial Statements
June 30, 2023

E. Compensated Absences

The District records the expense of employees' vacation and sick leave benefits in the period in which they accumulate and become vested. At June 30, 2023, the balance is \$37,168 and is included in accrued liabilities on the statement of net position.

F. Capital Assets

The cost of additions to utility plant and major replacements of property is capitalized. Costs include material, direct labor, transportation and indirect items such as interest, engineering, supervision and employee fringe benefits. Capital assets are defined by the District as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Depreciation is computed on a straight-line basis over the estimated useful lives of the property as follows:

Sewer Collection Facilities	50 years
Building	30 years
Furniture and Equipment	10 years
Computers	5 years

G. Restricted Assets

Restricted assets are financial resources generated for a specific purpose, such as pension benefits. These assets are for the benefit of a specific purpose and, as such, are legally or contractually restricted by an external third-party agreement. 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.

H. Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the Statement of Net Position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

I. Sewer Service Charges

Sewer service charges are billed and collected, on behalf of the District, by San Mateo County (the County) as a separate component of semi-annual property tax billings. The County assesses properties, bills for and collects property taxes on the following schedule:

	Secured	Unsecured
Lien/valuation date	January 1	January 1
Levy dates	July 1	July 1
Due dates	50% on November 1	July 1

EAST PALO ALTO SANITARY DISTRICT
Notes to the Financial Statements
June 30, 2023

Delinquent as of	50% on February 1 December 10	August 31
	April 10	

The term "Unsecured" refers to taxes on property not secured by liens on real property. Property taxes levied are recorded as revenue and receivables, net of estimated uncollectible amounts, in the fiscal year of levy. The County of San Mateo is responsible for assessing, collecting, and apportioning property taxes for the District. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed per statutory formulas.

Secured property taxes are levied on or before the first day of September of each year. They become a lien on real property on March 1 preceding the fiscal year for which taxes are levied. These taxes are paid in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, cost, and interest when paid. If the delinquent taxes are not paid at the end of five years, the property is sold at public auction, and the proceeds are used to pay the delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Additional tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payments and delinquent dates but are generally due within one year. If the new tax liens are lower, the taxpayer receives a tax refund rather than a tax bill. Unsecured personal property taxes are not a lien against real property. These taxes are due on March 1, and become delinquent, if unpaid on August 31.

The District participates in an alternative method of distribution of property tax levies and assessments known as the "Teeter Plan." The State Revenue and Taxation Code allows counties to distribute secured real property, assessment, and supplemental property taxes on an accrual basis resulting in full payment to taxing agencies each fiscal year. Any subsequent delinquent payments and penalties and interest during a fiscal year will revert to the County. The Teeter Plan payment, which includes 95% of the outstanding accumulated delinquency, is included in property tax revenue retained by the County under the revenue neutrality agreement. Under the Teeter Plan Code, 5% of the delinquency must remain with the County as a reserve for Teeter plan funding. The Teeter Plan does not allow the District to earn interest in a meaningful way on its reserves and the District has an objective to develop reserves to allow it to earn interest and go off the teeter plan.

J. Sewer Connection Fees

Connection fees represent a one-time contribution of resources to the District imposed on contractors and developers for the purpose of financing growth-related construction and improvements. Connection fees are recognized as 'Connection fees' revenues in the Statement of Revenues, Expenses and Changes in Net Position. Any cumulative fees collected in excess of amounts expended are shown as restricted net position.

K. Bond Issuance Costs

Bond issuance costs are expensed in the year of the debt issuance.

L. Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

EAST PALO ALTO SANITARY DISTRICT
Notes to the Financial Statements
June 30, 2023

M. Fair Value Measurements

The District's investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

N. Net Position

The District's net position is required to be classified for accounting and reporting purposes into the following categories:

Net Investment in Capital Assets – This component of net position, includes capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This amount is restricted by external creditor, grantors, contributors, or laws or regulations of other governments. Amounts reported in restricted net position represent funds held in a Section 115 trust with CalPERS, called CEPPT, that are restricted for future contributions to the pension plan; amounts related to the net pension liability.

Unrestricted – This component of net position consists of assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

O. Spending Order Policy

When an expense is incurred for which there are both restricted and unrestricted net position is available, it is the District's policy to apply these expenses to restricted net position to the extent that such are available and then to unrestricted net position.

P. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total 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 Plan and additions to/deductions from the District Plan have been determined on the same basis as they are reported by CalPERS. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. 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 and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by CalPERS. 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.

EAST PALO ALTO SANITARY DISTRICT
Notes to the Financial Statements
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Note 2 – Cash and Investments

Cash Deposits with Financial Institutions

Custodial credit risk – deposits. In the case of deposits, this is the risk that, in the event of a bank’s failure, the East Palo Alto Sanitary District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2023, the District’s cash deposit balance was \$24,684,203 and \$0 of that amount was exposed to custodial credit risk. The carrying amount of the deposits as of June 30, 2023 was \$24,684,203 of which \$2,260,541 are reported as restricted.

Policies and Classification

The District's cash and investments consist of the following at June 30, 2023:

Cash and investments with San Mateo County Treasurer	\$22,423,662
Restricted cash and investments with San Mateo County Treasurer	260,541
Restricted cash and investments held by pension trust - CEPPT	<u>2,000,000</u>
Total cash and investments	<u><u>\$24,684,203</u></u>

The District has authorized staff to invest cash with the San Mateo County Treasurer in a series of pooled accounts with cash from various other governmental entities within the County, for investment purposes. State statutes govern the County’s investment policies.

In addition, the County has an investment committee, which prescribes written investment policies regarding the types of investments that may be made. The policies limit amounts that may be invested in any one financial institution or amounts, which may be invested in long-term instruments. Interest earned from such time deposits and investments is allocated quarterly to the District based on its average daily cash balances. The fair value of the account at June 30, 2023 was provided by the County Treasurer.

The District is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The District reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. The pool is not registered with the SEC and is unrated.

Restricted Cash and Investments – Pension Trust – The District established a Section 115 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 from two strategy options for investments. The District elected to select 50% of restricted funds to Strategy 1 portfolio and 50% of restricted funds to Strategy 2 portfolio of restricted funds. The CEPPT Strategy 1 and 2 portfolios are 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 assumes more risk) compared with strategies invested in a higher percentage of bonds. Compared to CEPPT Strategy 2, this portfolio has a higher allocation to equities than bonds. The CEPPT Strategy 1 portfolio and CEPPT Strategy 2 portfolio consist of the following asset classes and corresponding benchmarks:

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Asset Class	CEPPT Strategy 1 Target Allocation	CEPPT Strategy 1 Target Range	Benchmark
Global equity	37.00%	+/-5%	MSCI All Country World Index IMI (Net)
Fixed income	44.00%	+/-5%	Bloomberg U.S. Aggregate Bond Index
Global real estate (REITs)	14.00%	+/-5%	FTSE EPRA/NAREIT Developed Liquid Index (Net)
Treasury inflation protected securities (TIPS)	5.00%	+/-3%	Bloomberg U.S. TIPS Index, Series L
Cash	0.00%	+/-2%	91-Day Treasury Bill
Total	100.00%	0.00%	

Asset Class	CEPPT Strategy 2 Target Allocation	CEPPT Strategy 2 Target Range	Benchmark
Global equity	21.00%	+/-5%	MSCI All Country World Index IMI (Net)
Fixed income	61.00%	+/-5%	Bloomberg U.S. Aggregate Bond Index
Global real estate (REITs)	9.00%	+/-5%	FTSE EPRA/NAREIT Developed Liquid Index (Net)
Treasury inflation protected securities (TIPS)	9.00%	+/-3%	Bloomberg U.S. TIPS Index, Series L
Cash	0.00%	+/-2%	91-Day Treasury Bill
Total	100.00%	0.00%	

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the SMCIF. The sensitivity of the fair values of the District’s investments to market interest rate fluctuation is measured as the weighted average maturity of the investment portfolio, which was 1.65 years on June 30, 2023.

District Investments:	June 30, 2023	Less than 1 Year
Investments measured at amortized cost		
Investment in San Mateo County Investment Pool	\$22,684,203	\$22,684,203
Investment in CEPPT - Mutual Funds	2,000,000	2,000,000
Total investments	<u>\$24,684,203</u>	<u>\$24,684,203</u>

Fair Value Measurements – The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy has three levels and is based on the valuation inputs used to measure an asset’s fair value. Deposits and withdrawals in the SMCIF and CEPPT – mutual funds are made in the basis of \$1 and not fair value. Accordingly, the District’s proportionate share of investments in those funds at June 30, 2023, is an uncategorized input not defined as Level 1, Level 2 or Level 3 input.

Note 3 – Capital Assets

Changes in property, plant and equipment accounts are summarized below:

	Balance at June 30, 2022	Additions	Retirements	Balance at June 30, 2023
Capital assets not being depreciated:				
Land	\$ 184,601	\$ -	\$ -	\$ 184,601
Construction in progress	636,243	1,572,401	-	2,208,644
Total capital assets not being depreciated	<u>820,844</u>	<u>1,572,401</u>	<u>-</u>	<u>2,393,245</u>

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Capital assets being depreciated:				
Sewer collection facilities	8,216,243	-	-	8,216,243
Cured in place pipe	1,474,518	-	-	1,474,518
Buildings	2,587,577	-	-	2,587,577
Furniture and equipment	2,169,077	6,918	-	2,175,995
Total capital assets being depreciated	14,447,415	6,918	-	14,454,333
Less accumulated depreciation for				
Sewer collection facilities	3,710,626	164,325	-	3,874,951
Cured in place pipe	490,768	49,151	-	539,919
Building	2,267,629	106,350	-	2,373,979
Furniture and equipment	1,913,041	87,394	-	2,000,435
Total accumulated depreciation	8,382,064	407,220	-	8,789,284
Total capital assets, net	\$ 6,886,195			\$ 8,058,294

Notes 4 – Unearned Income

On September 1, 2020, the District reported a developer deposit to develop a 185-unit affordable housing sewer project. The initial deposit reported an amount of \$2,469,185. At June 30, 2023, the District reported capital expenditures in the amount of \$1,572,401. The District reported unearned income in the amount of \$260,541 in the statement of net position.

The deposit shall be recognized as revenue only at the point the fees become nonrefundable. For the year ended June 30, 2023, \$1,572,401 were reported as developer fees.

Notes 5 – Long Term Debt

Changes in long-term liabilities

Changes in the District’s long-term liabilities for the year ended June 30, 2023, are as follows:

Business-Type Liabilities	Original Issue Amount	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Amount Due Within One Year
Palo Alto 1990 Utility Revenue Bonds 5.75%, due 6/30/2024	\$ 469,595	\$ 61,961	\$ -	\$ (30,165)	\$ 31,796	\$ 31,796
Palo Alto 2000 Utility Revenue Bonds 5.75%, due 6/30/2024	573,000	75,254	-	(36,672)	38,582	38,582
State Revolving Fund Loan 2.60%, due 1/31/2032	1,225,240	1,837	-	(1,837)	-	-
Net OPEB liability (asset)		(300,966)	339,483	-	38,517	
Net pension liability		1,230,697		(403,658)	827,039	-
	\$ 1,068,783	\$ 339,483	\$ (472,332)	\$ 935,934	\$ 70,378	

EAST PALO ALTO SANITARY DISTRICT
Notes to the Financial Statements
June 30, 2023

A. Current Year Transactions and Balances

Long-term debt at June 30, 2023 is summarized as follows:

The bonds are payable from general operating revenues of the District. The approximate amount of the pledge revenues is equal to the remaining principal and interest requirements of the secured debt, which was \$0.139 million on June 30, 2023. The revenue bonds mature through fiscal year 2032. Total debt service requirements for the year ended June 30, 2023 were \$68,674.

B. Palo Alto 1990 Utility Revenue Bonds

The District has a contract with the City of Palo Alto (City) whereby the District has rights to a specified ability (11.90%) of the total ability of the City's sewage treatment facilities. The 1990 utility revenue bonds are the District's part of the City of Palo Alto's (City) debt related to capital improvements of the treatment plant.

C. Palo Alto 2000 Utility Revenue Bonds

The 2000 Utility Revenue Bonds represent a portion of the Palo Alto 1990 Utility Revenue Bonds which was refinanced. The bonds are payable from revenues of the District.

D. Debt Service Requirements

For the Year Ending June 30	Principal	Interest	Total
2024	\$ 70,378	\$ 3,695	\$ 74,073
Total payments due	\$ 70,378	\$ 3,695	\$ 74,073

Note 6 – Defined Benefit Pension Plan

A. Plan Descriptions

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost sharing multiple-employer public employee retirement system. CalPERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and District resolution. Calipers issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from CalPERS, 400 Q Street, Sacramento, CA 95811.

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 years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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The Plan's provisions and benefits in effect at June 30, 2023, are summarized as follows:

	<u>Prior to January 1, 2013</u>	<u>On or After January 1, 2013</u>
Formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52
Monthly benefits, as a percent of annual salary	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8.00%	6.75%
Required employer contribution rates	14.02%	7.59%

Contributions — Section 20814(c) of the California Public Employees' Retirement Law 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. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2023, the contributions to the Plan were \$122,760.

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

As of June 30, 2023, the District reported net pension liability for its proportionate share of collective net pension liability in the amount of \$827,039.

The District's net pension liability for the Plan is measured as the proportionate share of the collective plans net pension liability. The net pension liability of the Plan is measured as of June 30, 2022, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of the June 30, 2022 and 2023 reporting dates was as follows:

Proportion - June 30, 2022	0.06481%
Proportion - June 30, 2023	<u>0.01767%</u>
Change	<u><u>-0.04714%</u></u>

For the year ended June 30, 2023, the District recognized pension expense of \$1,301,609. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EAST PALO ALTO SANITARY DISTRICT
Notes to the Financial Statements
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	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	84,747	\$ -
Differences between Expected and Actual Experience	16,609	11,124
Differences between Projected and Actual Investment Earnings	151,492	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	293,419
Change in Employer's Proportion	613	1,494,033
Pension Contributions Made Subsequent to Measurement Date	122,760	-
Total	\$ 376,221	\$ 1,798,576

The \$122,760 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 ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2024	\$ (643,208)
2025	(598,453)
2026	(396,111)
2027	92,657
2028	-
Thereafter	-
	\$ (1,545,115)

Actuarial Assumptions

The total pension liabilities in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions for both plans:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	
Discount Rate	7.15%
Inflation	2.50%
Salary increases	Varies by Entry Age and Service
Mortality rate table (1)	Derived using CalPERS' Membership Data for all Funds
Post-retirement benefit increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

1 The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Discount Rate — The discount rate used to measure the total pension liability was 7.15 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate, and the use of the municipal bond rate calculation is not necessary.

EAST PALO ALTO SANITARY DISTRICT
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The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of 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 both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class 1	Assumed Assets	Real Return	Real Return
	Allocation	Years 1 - 10 (2, 4)	Years 11 +(3, 4)
Public equity	50.00%	4.80%	5.98%
Fixed income	28.00%	1.00%	2.62%
Inflation assets	0.00%	0.77%	1.81%
Private equity	8.00%	6.30%	7.23%
Real assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

1 In the System's Annual Comprehensive Financial Report (ACFR), Fixed Income is included in Global

Debt Securities; Liquidity is included in Short-Term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

2 An expected inflation of 2.00% used for this period.

3 An expected inflation of 2.92% used for this period.

4 Figures are based on previous ALM of 2017

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate —

The following presents the District's proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plans, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Net Pension Liability	\$ 1,743,131	\$ 827,039	\$ 73,323

Pension Plan Fiduciary Net Position — Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

EAST PALO ALTO SANITARY DISTRICT
Notes to the Financial Statements
June 30, 2023

Note 7 – Postemployment Benefits Other Than Pensions (OPEB)

General Information about the OPEB Plan

Plan description and benefits provided

The District provides post-retirement benefits to eligible employees in the form of reimbursement for post-retirement health insurance premiums. Retired employees have a choice of remaining on the District's group health insurance plan or purchasing a plan of their choice. Reimbursement is made quarterly upon receipt of proof of payment. The District's contribution is capped at the amount of the Kaiser premium. The obligation of the District to provide these benefits is determined annually by the Board of Directors. In order to qualify for postemployment medical benefits, an employee must retire from the District with at least 5 years of service and be over 50 years of age.

The District is a contracting agency under the Public Employees' Medical and Hospital Care Act (PEMHCA), which is administered by CalPERS for the provision of healthcare insurance programs for both active and retired employees. The District participates in the California Employers' Retiree Benefit Trust Fund Program (CERBT), an agent-multiple employer postemployment health plan, to prefund other postemployment benefits through CalPERS. The financial statements for CERBT may be obtained by writing the California Public Employees' Retirement System, Constituent Relations Office, CERBT (OPEB), P.O. Box 242709, Sacramento, California 94229-2709 or by calling 888-225-7377.

Employees covered by benefit terms

As of the June 30, 2021 actuarial valuation, the following current and former employees were covered by the benefit terms under the healthcare plan:

Inactive employees or beneficiaries currently receiving benefits payments	7
Active employees	<u>4</u>
	<u>11</u>

Contributions

The OPEB Plan and its contribution requirements are established by the District. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2023, the District's contribution was \$70,394 of which \$13,513 was in the form of a subsidy.

Net OPEB Liability and Assumptions

The District's net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2021, based on the following actuarial methods and assumptions:

Inflation	2.50 percent
Salary increases	3.00 percent, average, including inflation
Investment rate of return	6.10 percent, net of OPEB plan investment expense
Inflation Health care cost trend rates	6.50 percent, grade down to 6% for years 2024 and thereafter.

Demographic actuarial assumptions used in this valuation are based on the 2017 experience study of the California Public Employees' Retirement System using data from 1997 to 2015 except for a different basis used to project future mortality improvements.

The long-term expected rate of return on OPEB plan investments was determined using a building-block

EAST PALO ALTO SANITARY DISTRICT
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method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return Yrs 1-10*	Long-Term Expected Real Rate of Return Yrs 11+*
Global Equity	49.00%	4.40%	4.50%
Fixed Income	23.00%	-1.50%	0.40%
Global Real Estates (REITs)	20.00%	3.00%	3.70%
Treasury Inflation Protected Securities	5.00%	-1.80%	0.50%
Commodities	3.00%	0.80%	1.10%

The discount rate used to measure the total OPEB liability was 6.10 percent. The projection of cash flows used to determine the discount rate assumed that 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 OPEB liability.

Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)	
Balance at June 30, 2022	\$ 1,245,585	\$ 1,546,551	\$ (300,966)
Changes recognized for year:			
Service cost	34,524	-	34,524
Interest	83,575	-	83,575
Benefit Payments	(83,907)	(83,907)	-
Employer contributions	-	83,907	(83,907)
Net investment income	-	104,379	(104,379)
Change due to investment experience	-	(311,379)	311,379
Change due to change in discount rate	97,899	-	97,899
Administrative expenses	-	(392)	392
Net changes	132,091	(207,392)	339,483
Balance at June 30, 2023	\$ 1,377,676	\$ 1,339,159	\$ 38,517

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease 5.10%	Current 6.10%	1% Decrease 7.10%
Net OPEB Liability	\$ 216,799	\$ 38,517	\$ (107,024)

The following presents the net OPEB liability if it were calculated using health care cost trend rates that are

EAST PALO ALTO SANITARY DISTRICT
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one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current	1% Decrease
Healthcare Cost Trend Rate	5.50%	6.50%	7.50%
Net OPEB Liability	\$ (58,146)	\$ 38,517	\$ 164,237

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in the future as OPEB expense. The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments 5 Years straight-line recognition

All other amounts

Straight-line recognition over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits, determined as of the beginning of the Measurement Period. In determining the EARSL, all active, retired and inactive (vested) members are counted, with the latter two groups having 0 remaining service years.

For the fiscal year ended June 30, 2023, the District recognized OPEB expense of \$70,997. As of fiscal year end June 30, 2023, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 75,079	\$ 44,727
Differences between expected and actual experience	71,782	-
Net difference between projected and actual earnings on investments	114,985	-
Deferred contributions	75,430	-
Total	\$ 337,276	\$ 44,727

The \$75,430 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as expense as follows:

Ending June 30	(Inflows) of Resources
2024	\$ 55,920
2025	54,116
2026	38,189
2027	68,894
2028	-
Thereafter	-
Total	\$ 217,119

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June 30, 2023

Note 8 – Risk Management

The East Palo Alto Sanitary District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Insurance policies are purchased for the following exposures with the deductible, or the amount of risk retention indicated in parenthesis: public officials and employment practices liability. Total risk financing limits of \$10 million combined single limit at \$10 million per occurrence, subject to the following deductibles: \$50,000 per occurrence for third party general liability property damage; \$25,000 per occurrence for third party auto liability property damage; 50% co-insurance of costs expended by SDRMA, in excess of \$10,000 up to \$50,000, per occurrence, for employment related claims. Employee dishonesty coverage: total of \$1 million per loss includes public employee dishonesty, forgery or alteration and theft, disappearance, and destruction. Property loss: Replacement cost, for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis to a combined total of \$1 billion per occurrence, subject to a \$50,000 deductible per occurrence. Boiler and machinery: Replacement cost up to \$100 million per occurrence, subject to a \$50,000 deductible. Public officials' personal liability: \$500,000 each occurrence, with an aggregate of \$500,000 per each elected/appointed official to which this coverage applies, deductible of \$50,000 per claim. Comprehensive and collision: on selected vehicles, with deductibles of \$250/\$500 or \$500/\$1,000 as elected; ACV limits; fully self-funded by SDRMA. Settled claims for SDRMA were exceeded in the current year in the amount of \$500,000.

The annual member contribution is \$136,012 for the property/liability program.

Note 9 – Commitments and Contingencies

Litigation – The District was a defendant in a lawsuit. The District settled out of court because the cost of legal fees was approaching the total cost of the lawsuit. The District paid the plaintiff three million dollars of which two million and five hundred thousand was paid by insurance and the remaining amount was funded by the District.

Note 10 – Related Party Transactions

The District reported an outstanding notes receivable of \$7,225 from one board member. The original note receivable reported a balance of \$10,000. The note receivable was to repair a sewer lateral at the board member's residence. The note receivable will be paid over a period of 10 years.

REQUIRED SUPPLEMENTARY INFORMATION

EAST PALO ALTO SANITARY DISTRICT
Required Supplementary Information
Schedule of Changes in the District's Net OPEB Liability and Related Ratios
June 30, 2023

Measurement period - fiscal year ended June 30	2022	2021	2020	2019	2018
Total OPEB Liability					
Service cost	\$ 34,524	\$ 33,345	\$ 32,374	\$ 29,357	\$ 28,312
Interest	83,575	78,160	76,380	86,688	81,234
Difference between expected and actual experience		134,472	-	(158,786)	(145,621)
Changes of assumptions	97,899	(83,791)	-	11,722	(1,122)
Benefit payments	(83,907)	(82,353)	(84,375)	(73,289)	(71,812)
Net change in total OPEB liability	<u>132,091</u>	<u>79,833</u>	<u>24,379</u>	<u>(104,308)</u>	<u>(160,438)</u>
Total OPEB liability - beginning	1,245,585	1,165,752	1,141,373	1,245,681	1,206,119
Total OPEB liability - ending (a)	<u>\$ 1,377,676</u>	<u>\$ 1,245,585</u>	<u>\$ 1,165,752</u>	<u>\$ 1,141,373</u>	<u>\$ 1,045,681</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 83,907	\$ 82,353	\$ 84,375	\$ 118,018	\$ 116,812
Net investment income	(207,000)	333,568	41,428	66,813	66,813
Benefit payments	(83,907)	(82,353)	(84,375)	(73,289)	(71,812)
Administrative expenses	(392)	(459)	(573)	(228)	(228)
Other expenses	-	-	-	-	-
Net change in plan fiduciary net position	<u>(207,392)</u>	<u>333,109</u>	<u>40,855</u>	<u>111,314</u>	<u>111,314</u>
Plan fiduciary net position - beginning	1,546,551	1,213,442	1,172,587	1,061,273	950,000
Plan fiduciary net position - ending (b)	<u>1,339,159</u>	<u>1,546,551</u>	<u>1,213,442</u>	<u>1,172,587</u>	<u>1,061,314</u>
District's Net OPEB liability (asset) - ending (a)-(b)	<u>\$ 38,517</u>	<u>\$ (300,966)</u>	<u>\$ (47,690)</u>	<u>\$ (31,214)</u>	<u>\$ (29,677)</u>
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	97%	124%	104%	103%	102%
Covered-employee payroll	423,561	450,416	315,700	276,918	231,119
Net OPEB liability (asset) as a percentage of covered-employee payroll	9.09%	-66.8%	-15.1%	-11.3%	-12.8%

See note to required supplementary information.

Note: Until the full ten year trend is compiled, information is presented only for those years which information is available.

EAST PALO ALTO SANITARY DISTRICT
Required Supplementary Information
Schedule of the District's Contributions for OPEB
June 30, 2023

Measurement year ended June 30,	2022	2021	2020	2019
Actuarially determined contribution	\$ 11,163	\$ 34,870	\$ 33,760	\$ 45,599
Contribution in relation to the actuarially determined contribution	75,430	83,907	82,353	84,375
Contribution deficiency (excess)	<u>\$ (64,267)</u>	<u>\$ (49,037)</u>	<u>\$ (48,593)</u>	<u>\$ (38,776)</u>
 Covered-employee payroll	 \$ 527,950	 \$ 423,561	 \$ 450,416	 \$ 315,700
 Contributions as a percentage of covered-employee payroll	 14.29%	 19.81%	 18.28%	 26.73%

See notes to required supplementary information.

Note: Until the full ten year trend is compiled, information is presented only for those years which information is available.

EAST PALO ALTO SANITARY DISTRICT
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
June 30, 2023

Measurement period - fiscal year ended June 30,	2022	2021	2020	2019	2018	2017	2016
Proportion of the net pension liability	0.03133%	0.03199%	0.04407%	0.04401%	0.04366%	0.04252%	0.04117%
Proportion share of the net pension liability	\$ 827,039	\$ 827,039	\$ 1,858,898	\$ 1,762,354	\$ 1,645,444	\$ 1,676,026	\$ 1,470,000
Covered payroll	\$ 471,085	\$ 423,561	\$ 435,859	\$ 262,098	\$ 185,975	\$ 367,923	\$ 701,000
Proportionate share of the net pension Covered-employee payroll	175.56%	195.26%	426.49%	672.40%	884.77%	455.54%	209.50%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	88%	68%	70%	71%	75%	71%	

See notes to required supplementary information.

Note: Until the full ten year trend is compiled, information is presented only for those years which information is available.

EAST PALO ALTO SANITARY DISTRICT
Required Supplementary Information
Schedule of the District's Contributions for Pensions
June 30, 2023

Measurement year ended	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ 122,760	\$ 84,229	\$ 54,342	\$ 38,195	\$ 33,957	\$ 27,317	\$ 42,957
Contribution in relation to the actuarially determined contributions	<u>(122,760)</u>	<u>(1,494,202)</u>	<u>(54,342)</u>	<u>(38,195)</u>	<u>(33,957)</u>	<u>(27,317)</u>	<u>(42,957)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (1,409,973)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	<u>\$ 471,085</u>	<u>\$ 423,561</u>	<u>\$ 435,859</u>	<u>\$ 359,533</u>	<u>\$ 262,098</u>	<u>\$ 185,975</u>	<u>\$ 367,922</u>
Contributions as a percentage of covered payroll	<u>26.06%</u>	<u>352.77%</u>	<u>12.47%</u>	<u>10.62%</u>	<u>12.96%</u>	<u>14.69%</u>	<u>11.67%</u>

See notes to required supplementary information

Note: Until the full ten year trend is compiled, information is presented only for those years which information is available.

EAST PALO ALTO SANITARY DISTRICT
Notes to Required Supplementary Information
June 30, 2023

Schedule of Changes in the Net OPEB Liability and Related Ratios

The District's OPEB liability is administered as an agent multiple employer plan, which is administered by CalPERS. The schedule of changes in Net OPEB liability and the schedule of contributions show a ten-year trend information, where available, about these amounts and they are changing from year to another.

Schedule of OPEB Contributions

The District makes contributions towards the OPEB liability at an actuarially determined rate. The District does not request reimbursement for its' out-of-pocket expenditures for this subsidy from the OPEB trust and allows the subsidy amount to remain in the CERBT to prefund OPEB and offset the total OPEB liability.

Schedule of District's Proportionate Share of the Net Pension Liability (NPL)

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Schedule of District's Pension Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.