East Palo Alto Sanitary District

Annual Financial Report
June 30, 2024

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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, 2024, 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, 2024, 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.

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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

Milpitas, California
March 6, 2025

EAST PALO ALTO SANITARY DISTRICT
Management's Discussion and Analysis
June 30, 2024

This section of the East Palo Alto Sanitary District financial statements presents management's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2024. Since this management's discussion and analysis is designed to focus on current activities, resulting in change and current known facts, please read it in conjunction with the District's basic financial statements and notes to the financial statements.

Financial Highlights

For the fiscal year ended June 30, 2024, the District's net position increased by $6,163,550 from $31,268,479 to $37,432,029 in 2024, as can be seen on page 9. Operating revenue, which consists mainly of District user fees and connection fees, decreased by $1,522,582, or 23%, compared to the previous year. Non-operating revenue, which consists of property tax and investment earnings increased by $1,193,826 or 74%. Capital contributions increased by $2,227,645. Operating expenses decreased by $3,937,311, or 53%. The overall increase in the District's net position is due in large part to the increase in net capital assets of $4,468,105 as a result of capital projects being in progress. Current assets increased by $1,005,268. The unrestricted portion of the District's net position (the portion available for capital projects and other expenditures) was $23,108,594 as of June 30, 2024, an increase of $1,828,031 compared to the previous year. The increase in the unrestricted portion is due to operating income of $5,043,168, nonoperating revenues of $1,193,826, and capital contributions of $2,227,645. The District reported special item expense, net of reimbursement of $360,893.

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 $37.43 million at the close of the most recent fiscal year. The largest portion of the District's net position (62%) reflect its unrestricted net position. Net investment in capital assets consists of 32% of total net position (e.g., sewers, buildings, machinery and equipment as of June 30, 2024. 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 consists of 6% of total net position.

The following schedule is prepared from the District's Statement of Net Position, which is presented on the full accrual basis of accounting in which capital assets are systematically depreciated.

	2024	2023	Increase (Decrease)	Percent Change
Current assets	$24,415,653	$23,410,385	$ 1,005,268	4.29%
Noncurrent assets	2,321,934	2,282,781	39,153	1.72%
Capital assets, net	12,161,198	8,058,294	4,102,904	50.92%
Total assets	38,898,785	33,751,460	5,147,325	15.25%
Deferred outflows	1,462,443	713,497	748,946	104.97%
Current liabilities	856,329	487,619	368,710	75.61%
Noncurrent liabilities	789,565	865,556	(75,991)	-8.78%
Total liabilities	1,645,894	1,353,175	292,719	21.63%
Deferred inflows	1,283,305	1,843,303	(559,998)	-30.38%
Net position	$37,432,029	$31,268,479	$ 6,163,550	19.71%

Current assets increased by $1,005,268 compared to the prior year and the change is primarily due to:

- Cash increased by $933,054
- Receivables increased by $415,401
- Prepaid items decreased by $343,187

Noncurrent assets increased by $39,153 and capital assets, net of accumulated depreciation increased by $4,102,904 compared to the prior year and the change is primarily due to:

- Restricted cash decreased by $98,304
- Notes receivable decreased by $5,377
- Net OPEB asset increased by $142,834
- Capital assets, net of accumulated depreciation increased by $4,102,904

Deferred outflows increased by $748,946 compared to the prior year and the change is primarily due to:

- Pension related deferred outflows increased by $824,909
- OPEB related deferred outflows decreased by $75,963

Current liabilities increased by $368,710 compared to the prior year and the change is primarily due to:

- Accounts payable and accrued liabilities increased by $653,678

- Unearned income decreased by $260,541
- Current portion of long-term debt decreased by $24,427

Noncurrent liabilities decreased by $75,991 compared to the prior year and the change is primarily due to:

- Net pension liability decreased by $37,474
- Net OPEB liability decreased by $181,351 and reported a Net OPEB asset of $142,834.

Deferred inflows decreased by $559,998 compared to the prior year and the change in primarily due to:

- Pension related deferred inflows decreased by $659,143
- OPEB related deferred inflows increased by $99,145

Change in Net Position

As can be seen above the District's net position increased by $6,163,550 this year from $31,268,479 in FY 2023 to $37,432,029 in FY 2024.

	2024	2023	Increase (Decrease)	Percent Change
Operating revenues	$ 5,043,168	$ 6,565,750	$ (1,522,582)	-23.19%
Operating expenses	3,551,685	7,488,996	(3,937,311)	-52.57%
Operating income	1,491,483	(923,246)	2,414,729	-261.55%
Nonoperating revenue (expenses)	2,805,315	2,074,607	730,708	35.22%
Capital contributions	2,227,645	-	2,227,645	
Special items	(360,893)	-	(360,893)	
Change in net position	$ 6,163,550	$ 1,151,361	$ 5,012,189	435.33%

The change in net position shows the Summary of Revenues, Expenses, and Changes in Net Position and provides details as to the nature and source of these changes. During 2024, total operating revenues decreased by $1,522,582. Total operating expenses decreased by $3,937,311. Non-operating revenue and expenses increased by $730,708. This year the District reported special items expense, net of reimbursement of $360,893 related to misappropriation of assets. The major factors which contributed to these results include:

- The decrease in operating revenues of $1,522,582 was due to a decrease in sewer service charges of $39,546, a decrease in developer fees and connection fees of $1,528,871, and an increase of $45,835 in other revenues
- The decrease in operating expenses of $3,937,311 was due to a decrease in personnel services of $2,848,119, a decrease of $1,107,161 in purchased services, an increase of $22,578 of utilities, fuel, and supplies, and a decrease in $42,021 in depreciation expense, and an increase of $37,412 in other expenses.
- The increase in nonoperating revenues (expenses) of $730,708 was due to an increase of $233,666 in property taxes, an increase of $495,276 in investment earnings, and a decrease of $1,766 in interest expense.
- The increase in capital contributions of $2,227,645 is due to an increase in development impact fees.
- The increase in special items expense is due to misappropriation of assets, net of reimbursements of $360,893.

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 $5,863,210. Total budgeted expenses were reported in the amount of $17,800,400.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2024, the District's investment in capital assets, net of accumulated depreciation reported $12,161,198 and $8,058,294 as of June 30, 2024 and 2023, respectively. In 2024, the District spent $4,468,105 on a current construction project. Additional information on the District's capital assets can be found in Note 3 to the Financial Statements.

	2024	2023	Increase Decrease	Percent Change
Land	$ 184,601	$ 184,601	$ -	-
Construction in progress	6,676,749	2,208,644	4,468,105	202.30%
Cured in place pipe	1,474,518	1,474,518	-	0.00%
Sewer collection facilities	8,216,243	8,216,243	-	0.00%
Buildings	2,587,577	2,587,577	-	0.00%
Furniture and equipment	2,175,995	2,175,995	-	0.00%
Accumulated depreciation	(9,154,485)	(8,789,284)	(365,201)	4.16%
Capital assets, net	$12,161,198	$ 8,058,294	$ 4,102,904	50.92%

Debt Administration

The District paid off the notes payable as of June 30, 2024. 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, 2024

ASSETS	
Current assets:	
Cash	$ 23,356,716
Intergovernmental receivable	198,806
Interest receivable	244,815
Rental receivable	3,030
Other receivable	158,787
Prepaid items	453,499
Total current assets	24,415,653
Noncurrent assets:	
Restricted investments- held by pension trust	2,162,237
Notes receivable	16,863
Net OPEB assets	142,834
Capital assets:	
Non depreciable capital assets	6,861,350
Capital assets, net of depreciation	5,299,848
Total non current assets	14,483,132
Total assets	38,898,785
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	1,201,130
OPEB related	261,313
Total deferred outflows of resources	1,462,443
LIABILITIES	
Current liabilities:	
Accounts payable	802,254
Accrued liabilities	8,124
Compensated absences	45,951
Total current liabilities	856,329
Noncurrent liabilities:	
Net pension liability	789,565
Total non current liabilities	789,565
Total liabilities	1,645,894
DEFERRED INFLOWS OF RESOURCES	
Pension related	1,139,433
OPEB related	143,872
Total deferred inflows of resources	1,283,305
NET POSITION	
Net investment in capital assets	12,161,198
Restricted	2,162,237
Unrestricted	23,108,594
Total Net Position	$ 37,432,029

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, 2024

OPERATING INCOME:	
Charges for services:	
Sewer service charges	$ 4,761,746
Connection fees	92,351
Miscellaneous	189,071
Total Operating Revenues	5,043,168
OPERATING EXPENSES:	
Personnel services:	
Salaries and benefits	584,608
Pension credit	(1,448,842)
Purchased services	3,458,148
Utilities, fuel and supplies	176,676
Depreciation	365,201
Other expenses	415,894
Total operating expenses	3,551,685
Operating income	1,491,483
NONOPERATING REVENUES (EXPENSES):	
Property taxes	1,734,764
Investment earnings	1,075,304
Interest expense	(4,753)
Total Nonoperating Revenues (Expenses)	2,805,315
CAPITAL CONTRIBUTIONS	2,227,645
SPECIAL ITEMS	
Misappropriation of assets	(360,893)
Total special items	(360,893)
Change in Net Position	6,163,550
Net Position - Beginning	31,268,479
Net Position - Ending	$ 37,432,029

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, 2024

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 4,782,627
Payments to suppliers	(4,191,320)
Payments to employees	(655,383)
Net cash provided by noncapital financing activities	(64,076)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property taxes	1,535,958
Net cash provided by noncapital financing activities	1,535,958
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(3,812,518)
Capital contributions	2,227,645
Principal paid on debt	(70,378)
Interest paid on debt	(4,753)
Collections on note receivable	5,376
Net cash used for capital and related financing activities	(1,654,628)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	1,017,496
Net cash provided by investing activities	1,017,496
Net increase in cash and cash equivalents	834,750
Cash and cash equivalents at beginning of year (including $2,000,000 for the sewer fund reported in restricted accounts)	24,684,203
Cash and cash equivalents at end of year (including $2,162,237 for the sewer fund reported in restricted accounts)	$ 25,518,953
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 1,491,483
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	365,201
Changes in assets and liabilities:	
Decrease in prepaid items	343,187
(Decrease) in operating accounts payable and accrued expenses	35,258
Decrease in unearned income	(260,541)
Increase in compensated absences	8,783
Increase in net pension liability and related deferrals	(1,521,525)
Increase in net other postemployment benefits asset and related deferrals	(6,242)
Increase in other receivables and special items	(519,680)
Net cash provided by operating activities	$ (64,076)

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

EAST PALO ALTO SANITARY DISTRICT
Index to Notes to the Financial Statements
June 30, 2024

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*

The fund financial statements provide information about the District's enterprise funds. Statements for proprietary funds are presented. The emphasis of fund financial statements is on major enterprise funds, each displayed in a separate column. Major individual enterprise funds are reported as separate columns in the funds financial statements.

The District reports the following major enterprise funds:

> The sewer fund accounts for the activities of the District. The 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 and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those which each party receives and gives up essentially equal values. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the sewer enterprise fund.

The appropriated budget is prepared by fund, function, and department. 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. Appropriations in all budgeted funds lapse at the end of the fiscal year.

D. *Cash and Cash Equivalents*

The District's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, the District's proprietary funds consider their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted cash – 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.

E. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in fund financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

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. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District has three items that qualify for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position, and deferred amounts related to pension and OPEB.

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. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In the fund financial statements the District reports deferred amounts related to pension and OPEB.

H. 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.

I. 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.

J. Compensated Absences

The District records the expense of employees' vacation benefits in the period in which they accumulate and become vested. At June 30, 2024, the balance is $45,951.

K. Net Position

For reporting proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

- *Restricted net position* consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation. 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* net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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

L. Revenues and Expenses

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

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.

2. *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.

3. *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.

M. Special Items

Special items are significant transactions or other events unusual or infrequent and are within the control of management.

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, 2024, the District's cash deposit balance was $23,356,716 and $0 of that amount was exposed to custodial credit risk. The carrying amount of the deposits as of June 30, 2024 was $23,356,716.

Policies and Classification

The District's cash and investments consist of the following at June 30, 2024:

Enterprise Funds Statement of Net Position	
Cash and investments with San Mateo County Treasurer	$23,356,716
Restricted cash and investments held by pension trust - CEPPT	2,162,237
Total cash and investments	$25,518,953

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, 2024 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 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:

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 1.49 years on June 30, 2024.

District Investments:	**June 30, 2024**	**Less than 1 Year**
Investments measured at amortized cost		
Investment in San Mateo County Investment Pool	$ 23,356,716	$ 23,356,716
Investment in CEPPT - Mutual Funds	2,162,237	2,162,237
Total investments	$ 25,518,953	$ 25,518,953

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, 2024, is an uncategorized input not defined as Level 1, Level 2 or Level 3 input.

Note 3–Capital Assets

Capital assets activity for the year ended June 30, 2024, was as follows:

	Balance at June 30, 2023	Additions	Retirements	Balance at June 30, 2024
Capital assets not being depreciated:				
Land	$ 184,601	$ -	$ -	$ 184,601
Construction in progress	2,208,644	4,468,105	-	6,676,749
Total capital assets not being depreciated	2,393,245	4,468,105	-	6,861,350
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	2,175,995	-	-	2,175,995
Total capital assets being depreciated	14,454,333	-	-	14,454,333
Less accumulated depreciation for				
Sewer collection facilities	(3,874,951)	(164,325)	-	(4,039,276)
Cured in place pipe	(539,919)	(49,151)	-	(589,070)
Building	(2,373,979)	(105,830)	-	(2,479,809)
Furniture and equipment	(2,000,435)	(45,895)	-	(2,046,330)
Total accumulated depreciation	(8,789,284)	(365,201)	-	(9,154,485)
Total capital assets, net	$ 8,058,294	$ 4,102,904	$ -	$ 12,161,198

Depreciation expense was charged to the function of the proprietary funds of the District as follows:

Sanitation	$ 365,201
Total depreciation expense	$ 365,201

Note 4 – Compensated Absences

	Balance Beginning of Year [1]	Additions	Deletions	Balance End of Year	Amount Due Within One Year
Compensated absences	$ 37,168	$ 8,783	$ -	$ 45,951	$ 45,951

1 In the prior period, compensated absences were classified in accrued liabilities. The ending balance of $45,951 was disbursed during the fiscal year ended June 30, 2025.

Note 5 – Long Term Debt

Changes in long-term liabilities

Changes in the District's long-term liabilities for the year ended June 30, 2024, 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	$ 31,796	$ -	$ (31,796)	$ -	$ -
Palo Alto 2000 Utility Revenue Bonds						
5.75%, due 6/30/2024	573,000	38,582	-	(38,582)	-	-
Net OPEB liability (asset)		38,517	-	(181,351)	(142,834)	
Net pension liability		827,039	-	(37,474)	789,565	-
		$ 935,934	$ -	$ (289,203)	$ 646,731	$ -

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.

The Plan's provisions and benefits in effect at June 30, 2024, are summarized as follows:

	Prior to January 1, 2013	On or After January 1, 2013
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	15.95%	7.68%

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, 2024, the contributions to the Plan were $72,684.

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

As of June 30, 2024, the District reported net pension liability for its proportionate share of collective net pension liability in the amount of $789,565.

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, 2023, 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, 2022 rolled forward to June 30, 2023 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, 2023 and 2024 reporting dates was as follows:

Proportion - June 30, 2023	0.01767%
Proportion - June 30, 2024	0.01579%
Change	-0.00188%

For the year ended June 30, 2024, the District recognized pension credit of $1,448,842. At June 30, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	47,670	$ -
Differences between Expected and Actual Experience	40,335	(6,257)
Differences between Projected and Actual Investment Earnings	127,838	-
Differences between Employer's Contributions and Proportionate Share of Contributions	912,603	(146,622)
Change in Employer's Proportion	-	(986,554)
Pension Contributions Made Subsequent to Measurement Date	72,684	-
Total	$ 1,201,130	$ (1,139,433)

The $72,684 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, 2025. 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
2025	$ (280,926)
2026	(75,975)
2027	342,245
2028	3,669
2029	-
Thereafter	-
	$ (10,987)

Actuarial Assumptions

The total pension liabilities in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions for both plans:

Valuation Date	June 30, 2022
Measurement Date	June 30, 2023
Actuarial Cost Method	
Discount Rate	6.90%
Inflation	2.30%
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 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

1 The mortality table was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP 2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study report that can be found on the CalPERS website.

Discount Rate — The discount rate used to measure the total pension liability was 6.90 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plans, CaIPERS 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 6.90 percent discount rate is adequate, and the use of the municipal bond rate calculation is not necessary.

The long term expected discount rate of 6.90 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	Assumed Assets Allocation	Real Return Years 1 - 10 (1,24)
Global equity - cap-weighted	30%	4.54%
Global equity non-cap-weighted	12%	3.84%
Private equity	13%	7.28%
Treasury	5%	0.27%
Mortgage-backed securities	5%	0.50%
Investment grade corporates	10%	1.56%
High yield	5%	2.27%
Emerging market debt	5%	2.48%
Private debt	5%	3.57%
Real assets	5%	3.21%
Leverage	-5%	-0.59%

1 An expected inflation 2.30 used for this period.

2 Figures are based on the 2021-22 Asset Liability Management study.

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 (5.90%)	Current Discount Rate (6.90%)	1% Increase (7.90%)
Net Pension Liability	$ 1,728,118	$ 789,565	$ 17,055

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

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, 2023 actuarial valuation date, 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	4
	11

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, 2024, the District's contribution was $78,371, of which $9,459 was in the form of a subsidy.

Net OPEB Liability and Assumptions

The District's net OPEB liability was measured as of June 30, 2023 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2023, based on the following actuarial methods and assumptions:

Inflation	2.50 percent
Salary increases	3.00 percent, average, including inflation
Investment rate of return	6.15 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 2021 experience study of the California Public Employees Retirement System using data from 1997 to 2019, 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 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	Target Range	Benchmark
Global Equity	49.00%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	23.00%	± 5%	Bloomberg Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5.00%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	20.00%	± 5%	FTSE EPRA/NAREIT Developed Index (Net)
Commodities	3.00%	± 5%	S&P GSCI Total Return Index
Cash		2%	ICE BofA US 3-Month Treasury Bill Index

The discount rate used to measure the total OPEB liability was 6.15 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, 2023	$ 1,377,676	$ 1,339,159	$ 38,517
Changes recognized for year:			
Service cost	39,876	-	39,876
Interest	84,170	-	84,170
Benefit Payments	(75,430)	(75,430)	-
Employer contributions	-	75,430	(75,430)
Net investment income		81,677	(81,677)
Change due to plan experience	(139,990)	4,315	(144,305)
Change due to assumptions	(4,374)		(4,374)
Administrative expenses		(389)	389
Net changes	(95,748)	85,603	(181,351)
Balance at June 30, 2024	$ 1,281,928	$ 1,424,762	$ (142,834)

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:

Discount Rate	**1% Decrease 5.15%**	**Current 6.15%**	**1% Decrease 7.15%**
Net OPEB Asset	$ 22,823	$ (142,834)	$ (277,782)

The following presents the net OPEB liability if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate:

Healthcare Cost Trend Rate	**1% Decrease 5.50%**	**Current 6.50%**	**1% Decrease 7.50%**
Net OPEB Asset	$ (242,524)	$ (142,834)	$ (19,478)

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, 2024, the District recognized OPEB expense of $72,128. As of fiscal year end June 30, 2024, 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	$ 52,259	$ (28,791)
Differences between expected and actual experience	40,437	(115,081)
Net difference between projected and actual earnings on investments	90,246	-
Deferred contributions	78,371	-
Total	$ 261,313	$ (143,872)

The $78,371 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability during the fiscal year ending June 30, 2025. 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
2025	$ 27,566
2026	11,639
2027	42,344
2028	(26,550)
2029	(15,929)
Thereafter	-
Total	$ 39,070

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 $187,952 for the property/liability program.

Note 9 – Related Party Transactions

The District reported an outstanding notes receivable of $6,259 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 with an annual interest rate of 2.2%.

Note 10 – Special Items

During the year ended June 30, 2024, a disbursement check was manipulated and disbursed to a vendor not affiliated with the East Palo Alto Sanitary District. The District received a cash receipt of $158,787 July 2024 to reimburse the misappropriated cash disbursement from the receiving bank and will be collecting the remaining funds from the general liability insurance carrier. This amount of $158,787 was reported as Other Receivable in the statement of net position, and the special item expense, net of the reimbursement of $360,893 was reported in the statement of revenues, expenses, and changes in net position.

Note 11 – Subsequent Events

As of October 1, 2024, the East Palo Alto Sanitary District is a component unit of the City of East Palo Alto. This action was approved by the San Mateo Local Agency Formation Commission (LAFCo). LAFCo is State-mandated, independent agency with countywide jurisdiction over changes in organization and boundaries of cities and special district including annexations, detachments, incorporations and formations. LAFCo's approval of the component unit of the City of East Palo Alto (subsidiary district) recognized the need for improved transparency in the District governance and sustainable and efficient operation of East Palo Alto Sanitary District.

As a blended component unit of the City of East Palo Alto, the District will continue to operate with the City Council as the Board of Directors and the City Manager as General Manager.

Note 12 – Commitments and Contingencies

Litigation–At June 30, 2024, in the opinion of the District's management, there are no outstanding matters, which could have a significant effect on the financial position of the District.

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, 2024

Measurement period - fiscal year ended June 30	2023	2022	2021	2020	2019	2018	2017
Total OPEB Liability							
Service cost	$ 39,876	$ 34,524	$ 33,345	$ 32,374	$ 29,357	$ 28,433	$ 65,151
Interest	84,170	83,575	78,160	76,380	86,688	83,812	75,555
Difference between expected and actual experience	(139,990)	-	134,472	-	(158,786)	-	56,218
Changes of assumptions	(4,374)	97,899	(83,791)	-	11,722	-	58,445
Benefit payments	(75,430)	(83,907)	(82,353)	(84,375)	(73,289)	(70,888)	(47,473)
Net change in total OPEB liability	(95,748)	132,091	79,833	24,379	(104,308)	41,357	207,896
Total OPEB liability - beginning	1,377,676	1,245,585	1,165,752	1,141,373	1,245,681	1,204,324	996,428
Total OPEB liability - ending (a)	$ 1,281,928	$ 1,377,676	$ 1,245,585	$ 1,165,752	$ 1,141,373	$ 1,245,681	$ 1,204,324
Plan Fiduciary Net Position							
Contributions - employer	$ 75,430	$ 83,907	$ 82,353	$ 84,375	$ 118,018	$ 167,884	$ 123,991
Net investment income	81,677	(207,000)	333,568	41,428	66,813	61,815	84,512
Benefit payments	(75,430)	(83,907)	(82,353)	(84,375)	(73,289)	(70,888)	(47,473)
Administrative expenses	(389)	(392)	(459)	(573)	(228)	(522)	(421)
Other expenses		-	-	-	-	(1,196)	-
Change due to investment experience	4,315						
Net change in plan fiduciary net position	85,603	(207,392)	333,109	40,855	111,314	157,093	160,609
Plan fiduciary net position - beginning	1,339,159	1,546,551	1,213,442	1,172,587	1,061,273	904,180	743,571
Plan fiduciary net position - ending (b)	1,424,762	1,339,159	1,546,551	1,213,442	1,172,587	1,061,273	904,180
District's Net OPEB liability (asset) - ending (a)-(b)	$ (142,834)	$ 38,517	$ (300,966)	$ (47,690)	$ (31,214)	$ 184,408	$ (300,144)
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	111%	97%	124%	104%	103%	85%	75%
Covered-employee payroll	527,950	423,561	450,416	315,700	276,918	325,500	534,400
Net OPEB liability (asset) as a percentage of covered-employee payroll	-27.05%	9.09%	-66.8%	-15.1%	-11.3%	56.7%	-56.2%

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, 2024

Measurement year ended June 30,	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Actuarially determined contribution	$ 6,714	$ 11,163	$ 34,870	$ 33,760	$ 45,599	$ 44,729	$ 84,368
Contribution in relation to the actuarially determined contribution	78,371	75,430	83,907	82,353	84,375	118,018	171,601
Contribution deficiency (excess)	$ (71,657)	$ (64,267)	$ (49,037)	$ (48,593)	$ (38,776)	$ (73,289)	$ (87,233)
Covered-employee payroll	$ 527,950	$ 423,561	$ 450,416	$ 315,700	$ 276,918	$ 325,400	$ 534,400
Contributions as a percentage of covered-employee payroll	14.84%	17.81%	18.63%	26.09%	30.47%	36.27%	32.11%

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, 2024

Measurement period - fiscal year ended June 30,	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Proportion of the net pension liability	0.0003058	0.03133%	0.03199%	0.04407%	0.04401%	0.04366%	0.04252%	0.04232%	0.04303%	0.03807%
Proportion share of the net pension liability	789565	$827,039	$1,230,697	$1,858,898	$1,762,354	$1,645,444	$1,676,026	$1,470,158	$1,180,505	$940,823
Covered payroll	$ 603,962	$471,085	$ 423,561	$ 435,859	$ 262,098	$ 185,975	$ 367,923	$ 701,673	$ 678,974	$577,858
Proportionate share of the net pension Covered-employee payroll liability as a percentage of covered payroll	130.73%	175.56%	290.56%	426.49%	672.40%	884.77%	455.54%	209.52%	173.87%	162.81%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	89%	88%	68%	70%	71%	75%	71%	74%	78%	80%

See notes to required supplementary information.

EAST PALO ALTO SANITARY DISTRICT
Required Supplementary Information
Schedule of the District's Contributions for Pensions
June 30, 2024

Measurement year ended	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Actuarially determined contribution	$ 72,684	$122,760	$ 84,229	$ 54,342	$ 38,195	$ 33,957	$ 27,317	$ 42,955	$ 76,889	$126,764
Contribution in relation to the actuarially determined contributions	$ (72,684)	(122,760)	(1,494,202)	(54,342)	(38,195)	(33,957)	(27,317)	(42,955)	(76,889)	(126,764)
Contribution deficiency (excess)	$ -	$ -	$(1,409,973)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$603,962	$471,085	$ 423,561	$435,859	$359,533	$262,098	$185,975	$367,923	$701,673	$678,974
Contributions as a percentage of covered payroll	12.03%	26.06%	352.77%	12.47%	10.62%	12.96%	14.69%	11.67%	10.96%	18.67%

See notes to required supplementary information

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.

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.