# GRATON COMMUNITY SERVICES DISTRICT

## BASIC FINANCIAL STATEMENTS
## FOR THE YEAR ENDED
## JUNE 30, 2023

This Page Left Intentionally Blank

**GRATON COMMUNITY SERVICES DISTRICT**
**BASIC FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED JUNE 30, 2023**

## Table of Contents

This Page Left Intentionally Blank

# INDEPENDENT AUDITOR'S REPORT

Board of Directors
Graton Community Services District
Graton, California

***Opinions***

We have audited the accompanying financial statements of the business-type activities of the Graton Community Services District (District), California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the 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 Opinions***

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 District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Responsibilities of Management's for the Financial Statements***

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

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

Accountancy Corporation
3478 Buskirk Avenue, Suite 217
Pleasant Hill, CA 94523

T 925.228.2800
E maze@mazeassociates.com
W mazeassociates.com

***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, individually or in the aggregate, they could reasonably be expected to 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 District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information 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.

Maze + Associates

Pleasant Hill, California
February 8, 2024

This Page Left Intentionally Blank

# GRATON COMMUNITY SERVICES DISTRICT
# MANAGEMENT'S DISCUSSION AND ANALYSIS
# JUNE 30, 2023

As management of the Graton Community Services District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements and the accompanying notes to the basic financial statements as listed in the Table of Contents.

## Reporting Entity

The District was formed in 2004 by a resolution of the Local Agency Formation Commission of the County of Sonoma, California approving a reorganization consisting of the dissolution of the Graton Sanitation Zone of the Sonoma County Water Agency, forming the District, designating the District as the successor in interest to the Graton Sanitation Zone, and establishing a sphere of influence for the District.

## Financial Highlights

*Net Position*

The assets and deferred inflows of resources of the District exceeded its liabilities and deferred outflows of resources at the close of the most recent fiscal year by $10,172,860, a decrease of $424,092 from the prior fiscal year. Unrestricted net position at the end of the fiscal year amounted to $737,129.

Condensed Statements of Net Position

| June 30, | 2022 | 2023 | Percentage Change |
|---|---|---|---|
| Assets | | | |
| Current assets | $ 754,851 | $ 571,267 | -24.3% |
| Noncurrent assets | 422,168 | 314,826 | -25.4% |
| Capital assets | 11,376,520 | 11,461,908 | 0.8% |
| **Total Assets** | 12,553,539 | 12,348,001 | -1.6% |
| Deferred outflows of resources | 70,339 | 31,576 | -55.1% |
| Liabilities | | | |
| Current liabilities | 402,738 | 345,462 | -14.2% |
| Noncurrent liabilities | 1,624,188 | 1,856,275 | 14.3% |
| **Total Liabilities** | 2,026,926 | 2,201,737 | 8.6% |
| Deferred inflows of resources | - | 4,980 | 100% |
| Net Position | | | |
| Net investment in capital assets | 9,628,719 | 9,435,731 | -2.0% |
| Unrestricted | 968,233 | 737,129 | -23.9% |
| **Total Net Position** | $ 10,596,952 | $ 10,172,860 | -4.0% |

**Financial Highlights (continued)**

*Revenues*

The District recognized total operating revenues of $1,040,926 during the fiscal year ended June 30, 2023, which consisted of flat charges of $1,026,521 and charges for services of $14,405.

*Expenses*

The District incurred operating expenses totaling $1,483,209 during the fiscal year ended June 30, 2023. This amount represents expenses related to the general administration and operation of the sanitation system.

*Changes in Net Position*

The District recorded operating loss of $442,283 for the fiscal year ended June 30, 2023, while recognizing an overall decrease in net position of $424,092.

Condensed Statement of Changes in Net Position

| Year ended June 30, | 2022 | 2023 | Percentage Change |
|---|---|---|---|
| Revenues | | | |
| Operating | $ 1,039,192 | $ 1,040,926 | 0.2% |
| Nonoperating | 336,656 | 121,683 | -63.9% |
| **Total revenues** | 1,375,848 | 1,162,609 | -15.5% |
| Expenses | | | |
| Operating | 1,482,460 | 1,483,209 | 0.1% |
| Nonoperating | 112,299 | 103,492 | -7.8% |
| **Total Expenses** | 1,594,759 | 1,586,701 | -0.5% |
| Net income before contributions | (218,911) | (424,092) | 94% |
| Contributions | | | |
| Connection fees - capital | 134,208 | - | -100% |
| Change in net position | (84,703) | (424,092) | 400.7% |
| Net Position - beginning of year | 13,135,670 | 10,596,952 | |
| Prior period adjustment | (2,454,015) | - | -100.0% |
| **Net Position - end of year** | $ 10,596,952 | $ 10,172,860 | -4.0% |

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's financial report is comprised of three components: 1) management's discussion and analysis, 2) basic financial statements, and 3) notes to the basic financial statements.

*Management's Discussion and Analysis*

Management's Discussion and Analysis is intended to provide a narrative overview that users need to interpret the basic financial statements. Management's Discussion and Analysis also provides analysis of key data presented in the basic financial statements.

*Basic Financial Statements*

The District is engaged only in the business-type activities of the collection, treatment, or disposal of sewage, waste and storm water within its service area. The District accounts for its financial activity utilizing fund accounting, specifically, enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flow. The basic financial statements presented are the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

*Notes to the Basic Financial Statements*

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**Financial Analysis**

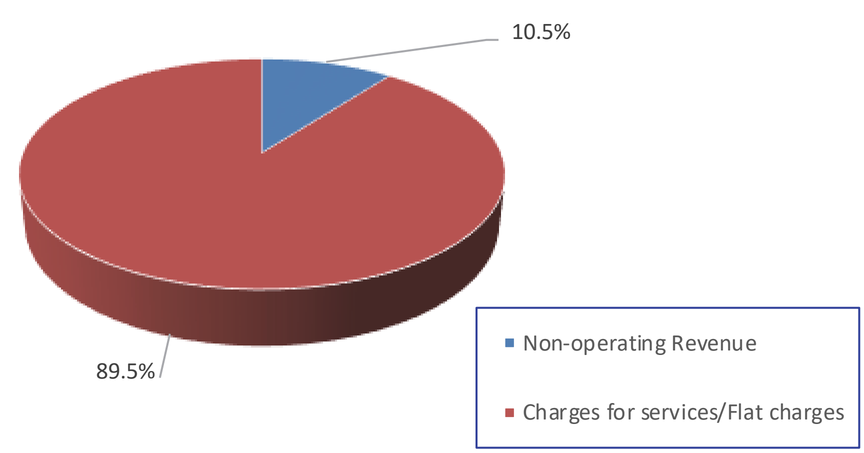
Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by $10,172,860 at the close of the fiscal year ended June 30, 2023.

The largest portion of the District's net position reflects its net investment in capital assets (e.g., land, infrastructure, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide sanitation services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The decrease in the current assets balance is due to a decrease in accounts receivable and prepaid expenses as a result of operations. The increase in capital assets is due to annual depreciation of assets in service and increases to construction in progress due to a financed purchase for Solar equipment. The decrease in net position is due to a decrease in current and noncurrent assets.

Total revenues of the District for the fiscal year ended June 30, 2023 totaled $1,162,609, representing an decrease of $213,239 from the preceding fiscal year revenues of $1,375,848. The rate based operating charges, representing 89.5% of the District's total revenue, increased by $1,734. Non-operating revenues comprised of investment earnings and miscellaneous revenue represents 10.5% of the District's total revenue, decreased by $214,973. The combined effect overall was a decrease in revenues of 15.5% for the fiscal year ended June 30, 2023.

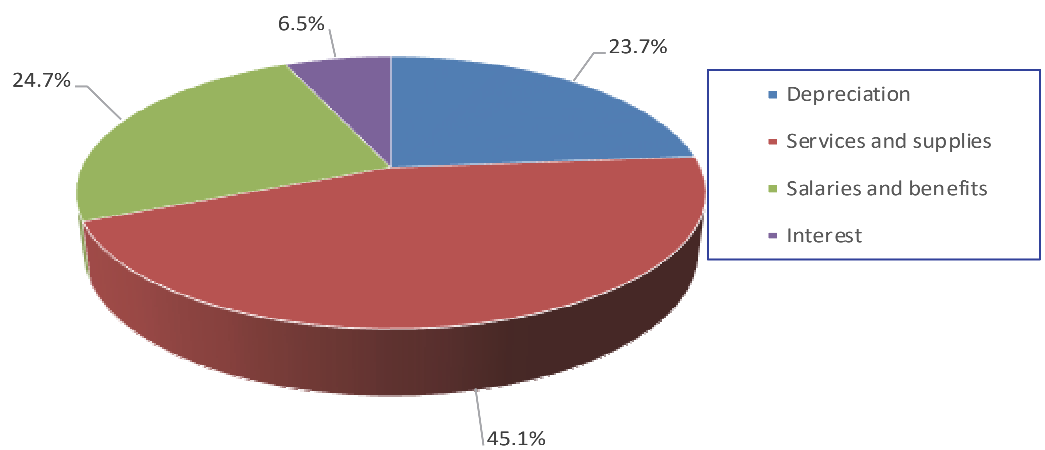
Revenues by type:



**Financial Analysis** (continued)

Operating revenues, consisting of flat charges and sanitation service charges, increased overall by $18,594 from the prior fiscal year. Flat charges consisting of direct charges and property taxes had increased from the previous fiscal year. Sanitation service charges decreased this year for the District by $16,860.

Expenses for the District for the fiscal year ended June 30, 2023 totaled $1,586,701. The District saw a decrease in expenses of $8,058 from the previous fiscal year. The decrease was due to a decrease in services and supplies expense and depreciation. Costs associated with the administration of the sanitation system totaled $715,218 and represent 45.1% of the District's total operating costs during the fiscal year. Salaries and benefits represent 24.7% or $392,279 of expenses. Interest expense makes up 6.5% or $103,492. The remaining 23.7% of operating expenses consists of $375,712 in depreciation.



**Financial Analysis** (continued)

*Capital Asset and Debt Administration*

*Capital Assets*

The District's investment in capital assets as of June 30, 2023, amounts to $11,461,908 (net of accumulated depreciation). The components of capital assets are summarized below. In addition to reporting the District's investment in capital assets including land, infrastructure and systems, improvements, Intangible assets for the District consist of permanent easements. For the fiscal year 2023, there was an addition to construction in progress of $461,100 for Solar Equipment.

| | June 30, 2022 | June 30, 2023 | Percentage Change |
|---|---|---|---|
| Land | $ 417,205 | $ 417,205 | - |
| Machinery and equipment | 139,069 | 139,069 | - |
| Infrastructure | 16,882,596 | 16,882,596 | - |
| Intangible: non-amortizable | 19,055 | 19,055 | - |
| Construction in progress | - | 461,100 | 100.0% |
| Accumulated depreciation | (6,081,405) | (6,457,117) | 6.2% |
| **Total** | $ 11,376,520 | $ 11,461,908 | 0.8% |

Additional information on the District's capital assets can be found in the notes to the basic financial statements.

*Long-term Debt*

At the end of the current fiscal year, the District had a total of $2,026,177 in outstanding current and non-current long-term debt. The District's long-term debt consists of a construction loan restructured in 2013 and new issued debt for the financed purchase of solar equipment. Long-term debt obligations are summarized below.

| | Beginning Balance June 30, 2022 | Additions | Retirements | Ending Balance June 30, 2023 | Due Within One Year |
|---|---|---|---|---|---|
| Construction Loan - Direct Borrowing | $ 1,747,801 | $ - | $ 123,613 | $ 1,624,188 | $ 129,681 |
| Financed Purchase - Solar | - | 461,100 | 59,111 | $ 401,989 | 61,232 |
| Total | $ 1,747,801 | $ 461,100 | $ 182,724 | $ 2,026,177 | $ 190,913 |

The District's total debt increased $278,379 during the fiscal year ended June 30, 2023 due to addition in debt and principal payments on the construction loan. Additional information on the District's long-term debt can be found in the notes to the basic financial statements.

**Financial Analysis** (continued)

*Next Year's Budget and Rates*

Budgeted gross expenses, including capital projects expenditures, for the District for fiscal year ending June 30, 2024 have decreased by $871,914 or 35.5% for a total of $1,585,115. The decrease in budgeted expenses is from both the operations and construction project's budget.

Following is a comparison of the final budget for the fiscal year ended June 30, 2023 and the proposed budgeted expenses for the District for the fiscal year ending June 30, 2024.

| | Fiscal Year Ending June 30, 2023 | Fiscal Year Ending June 30, 2024 | Increase / (Decrease) | Percentage Change |
|---|---|---|---|---|
| Operations | $ 1,707,294 | $ 1,333,464 | $ (373,830) | -21.9% |
| Construction | 749,735 | 251,651 | (498,084) | -66.4% |
| Total | $ 2,457,029 | $ 1,585,115 | $ (871,914) | -35.5% |

*Sewer Service Fees*

The Districts sewer service fees did not increase for the 2023/24 budget year.

| | Fiscal Year Ending June 30, 2023 | Fiscal Year Ending June 30, 2024 | Percentage Change |
|---|---|---|---|
| Rate per Equivalent Single-Family Dwelling | $ 1,574 | $ 1,574 | 0.0% |
| Number of Equivalent Single-Family Dwellings | 652 | 652 | 0.0% |

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Graton Community Services District, P.O. Box 534, Graton, CA 95444.

This Page Left Intentionally Blank

GRATON COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
June 30, 2023

| | |
|---|---|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and investments | $563,272 |
| Accounts receivable | 7,995 |
| Total current assets | 571,267 |
| NON-CURRENT ASSETS | |
| Cash and investments restricted for capital assets | 301,809 |
| Accounts receivable | 13,017 |
| Capital assets not being depreciated: | |
| Land | 417,205 |
| Intangible assets - easements | 19,055 |
| Construction in progress | 461,100 |
| Capital assets, net of accumulated depreciation: | |
| Infrastructure | 10,564,548 |
| Total capital assets, net of accumulated depreciation | 11,461,908 |
| Total non-current assets | 11,776,734 |
| TOTAL ASSETS | 12,348,001 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension related | 23,848 |
| Deferred charge on refunding | 7,728 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 31,576 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $12,379,577 |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accounts payable and accrued expenses | $108,262 |
| Compensated absences | 26,485 |
| Current portion of long-term debt | 190,913 |
| Accrued interest payable | 19,802 |
| Total current liabilities | 345,462 |
| NON-CURRENT LIABILITIES | |
| Net pension liability | 21,011 |
| Long-term debt, net of current portion | 1,835,264 |
| Total non-current liabilities | 1,856,275 |
| TOTAL LIABILITIES | 2,201,737 |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension related | 4,980 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 4,980 |
| NET POSITION | |
| Net investment in capital assets | 9,435,731 |
| Unrestricted | 737,129 |
| TOTAL NET POSITION | 10,172,860 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | $12,379,577 |

See accompanying notes to financial statements

# GRATON COMMUNITY SERVICES DISTRICT
## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
## FOR THE YEAR ENDED JUNE 30, 2023

| | |
|---|---|
| OPERATING REVENUES | |
| Flat charges | $1,026,521 |
| Charges for services | 14,405 |
| Total operating revenues | 1,040,926 |
| OPERATING EXPENSES | |
| Salaries and benefits | 392,279 |
| Services and supplies | 715,218 |
| Depreciation and amortization | 375,712 |
| Total operating expenses | 1,483,209 |
| OPERATING INCOME | (442,283) |
| NONOPERATING REVENUES (EXPENSES) | |
| Interest income | 24,067 |
| Interest expense | (103,492) |
| Miscellaneous income | 97,616 |
| Total nonoperating revenues | 18,191 |
| CHANGES IN NET POSITION | (424,092) |
| NET POSITION, BEGINNING OF YEAR | 10,596,952 |
| NET POSITION, END OF YEAR | $10,172,860 |

See accompanying notes to financial statements

GRATON COMMUNITY SERVICES DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash receipts from customers | $1,035,573 |
| Cash paid to suppliers for goods and services | (841,817) |
| Cash paid to employees for services | (287,642) |
| Cash Flows from Operating Activities | (93,886) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Miscellaneous Revenue | 97,616 |
| Cash Flows from Noncapital Financing Activities | 97,616 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Principal payments - construction loan | (123,613) |
| Principal payments - financed purchase | (59,111) |
| Interest payments on long-term debt | (99,844) |
| Cash Flows (used for) Capital and Related Financing Activities | (282,568) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest earnings | 24,067 |
| Cash Flows from Investing Activities | 24,067 |
| NET CASH FLOWS | (254,771) |
| Cash, beginning of year | 1,119,852 |
| Cash, end of year | $865,081 |

| | |
|---|---|
| Reconciliation of cash and cash equivalents to statement of net position: | |
| Cash and cash equivalents | $563,272 |
| Restricted - cash and cash equivalents | 301,809 |
| Total cash and cash equivalents | $865,081 |

See accompanying notes to financial statements (Continued)

GRATON COMMUNITY SERVICES DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

RECONCILIATION OF NET INCOME FROM OPERATIONS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:

| | |
|---|---|
| Net income from operations | ($442,283) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation and amortization | 375,712 |
| Change in assets and liabilities: | |
| (Increase) decrease in assets and deferred outflows of resources: | |
| Accounts receivable | (5,353) |
| Increase (decrease) in liabilities and deferred inflows of resources: | |
| Accounts payable | (126,599) |
| Compensated absences | 2,236 |
| Net pension liability and related deferred inflows and outflows | 102,401 |
| Net cash provided by operating activities | ($93,886) |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | |
| Acquisition of capital assets through financed purchase | $461,000 |

See accompanying notes to financial statements

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *A. Defining The Financial Reporting Entity*

Graton Community Services District (the District) provides sanitation services for the Graton community (an unincorporated area) in Sonoma County, California. Established on July 1, 2004, the District is publicly owned. Operations are governed by the Board of Directors who are elected by registered voters of the Graton community. The District is responsible for operating and maintaining the local sanitation collection systems, pump stations, and treatment plant. The District is governed by an ordinance defining policies, including user fees.

### *B. New Accounting Pronouncements*

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the District's financial reporting process. The following pronouncements were implemented for the year ended June 30, 2023.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations.* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with such arrangements. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement is effective for reporting periods beginning after December 15, 2021, or fiscal year 2022-23. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 92 – In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The primary objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements for a variety of topics. This Statement is effective for reporting periods beginning after June 15, 2022, or the fiscal year 2022-23. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement is effective for reporting periods beginning after June 15, 2022, or the fiscal year 2022-23. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 96 – In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The primary objective of this Statement is to improve financial reporting by establishing a definition for subscription-based information technology arrangements (SBITAs) and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. This Statement is effective for reporting periods beginning after June 15, 2022, or the fiscal year 2022-23. The implementation of this Statement did not have a material effect on the financial statements.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

GASB Statement No. 99 – In April 2022, GASB issued Statement No. 99, *Omnibus 2022.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. This Statement is effective for reporting periods beginning after June 15, 2022, or the fiscal year 2022-23. The implementation of this Statement did not have a material effect on the financial statements.

### *C. Financial Statement Presentation*

The District's basic financial statements display information for the District as a whole. The District does not have any activities that are considered government-type or fiduciary activities. The statement of net position presents the financial position of all District activities at year end.

### *D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The District uses a proprietary (enterprise) fund to account for its activities. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal external revenue sources meet any of the following criteria: (1) issued debt is backed solely by fees and charges, (2) the cost of providing services for any activity (including capital costs such as depreciation or debt service) must be legally recovered through fees or charges, or (3) if the government's policy is to establish activity fees or charges designed to recover the cost of providing services.

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows of resources, and liabilities associated with the operation of the District are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met. Revenues from charges for sanitary services are recognized once the services have been delivered.

Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are flat charges and charges for services. Operating expenses for the District include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### *E. Cash and Investments*

The District's cash and investments are pooled with the Sonoma County Treasurer (Treasurer). The Treasurer also acts as a disbursing agent for the District. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the District based on its respective average daily balance for that quarter in the County Treasury Investment Pool (the Treasury Pool), an external investment pool.

For purposes of the statement of cash flows, the District considers all pooled cash and investments as cash and cash equivalents because the Treasury Pool is used as a demand deposit account. Restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

### *F. Accounts Receivable*

Accounts receivable consist of uncollected fees for sanitation services and grant receivables as of June 30, 2023. Management periodically evaluates the need to recognize an allowance for uncollectable accounts receivable. The District has not recorded an allowance for uncollectible receivables as of June 30, 2023.

### *G. Capital Assets*

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Depreciation has been provided, excluding land and non-amortizable intangibles, using the straight-line method over estimated lives ranging from 3 to 100 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Infrastructure assets are generally estimated to have useful lives ranging from 30 to 100 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for infrastructure assets are capitalized as projects are constructed. Infrastructure under construction and not yet placed in service is recorded as construction in progress. Interest incurred during the construction phase of such projects is included as part of the capitalized value of the assets constructed.

Intangible assets are stated at cost or estimated historical cost. Intangible assets for the District consist of temporary and permanent easements. Temporary easements are defined by the District as any temporary easement acquired during the course of a project that, by agreement, will expire upon the completion of a project, and has an estimated useful life in excess of 1 year. Temporary easements are amortized using the straight-line method over the duration of the easement. Permanent easements, including dedicated easements, are stated at cost, estimated historical cost, or fair value at the time of receipt and are not amortized.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

### *H. Compensated Absences*

Vacation and sick leave accumulation policies for the District apply to regular employees in all classifications. Upon termination, the District shall compensate the employee for accumulated vacation time at the employee's straight time rate of pay at the time of termination. Upon termination for non-cause reasons sick leave in excess of 30 days shall be bought back by the District at a rate of one-quarter day for each whole day accrued. Termination for cause shall result in loss of all accrued sick leave.

### *I. Deferred outflows / inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources , represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District recognizes a deferred charge on pensions and refunding as a deferred outflow of resources reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

### *J. Net Position*

Net position represents the difference between all other elements in a statement of financial position and is displayed in three components—net investment in capital assets; restricted and unrestricted . Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulation of other governments. The flow assumption used by the District is that, when both restricted and unrestricted resources are available for the same purpose, restricted resources are expended before unrestricted resources.

### *K. Budget and Budgetary Accounting*

The Board of Directors of the District adopts a budget annually to be effective July 1st for the ensuing fiscal year. Transactions not included in the original budget require approval from the Board of Directors.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

### *L. Property Tax Revenue*

Property taxes, including tax rates, are regulated by the State and are administered locally by the County of Sonoma (the County). The County is responsible for assessing, collecting, and distributing property in accordance with state law. The County is responsible for the allocation of property taxes to the District.

The County has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the District each fiscal year. Any subsequent delinquent payments and related penalties and interest revert to the County.

Property taxes are recognized as revenue when they are levied for. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's comprehensive annual financial report.

### *M. Pensions*

In general, the District recognizes a net pension liability or asset, which represents the Districts proportionate share of the difference of the total pension liability over the fiduciary net position of the pension reflected in the actuarial report provided by the California Public Employees' Retirement System (CalPERS). Changes in the net pension liability or asset are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change.

The changes in net pension liability or asset that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability or asset and deferred outflows/inflows of resources relating to pensions and pension expense, information about the fiduciary net position of the District's pension plan with CalPERS, and additions to/deductions from the plan's 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 benefits terms. Investments are reported at fair value.

Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### *N. Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Estimates significant to the financial statements of the District include the allowance for uncollectible accounts and the estimated useful life of capital assets.

## NOTE 2 – CASH AND INVESTMENTS

### *A. Investment in the Sonoma County Treasurer's Investment Pool*

Cash and investments are comprised of cash pooled with the Sonoma County Treasury Pool (the Treasury Pool), an external investment pool. The Sonoma County Treasurer's office also acts as a disbursing agent for the District. The fair value of the District's investment in this pool is based upon the Districts' pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio).

The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the Treasury Pool is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee of the Treasury Pool has regulatory oversight for all monies deposited into the Treasury Pool. The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity, and maximum rate of return. The policy addresses the soundness of financial institutions in which the Treasurer will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

**NOTE 2 – CASH AND INVESTMENTS, Continued**

Permitted investments including the following:

- U.S. Treasury and Federal Agency securities
- Bonds and Notes issued by local agencies
- Registered State warrants and municipal notes and bonds
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Securities lending agreements
- Mutual funds and money market mutual funds
- Collateralized mortgage obligations
- Collateral time deposits
- Joint power agreements
- Investment Trust of California (CalTRUST)
- Obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation or Inter-American Development Bank

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County Auditor-Controller Treasurer-Tax Collector at 585 Fiscal Drive, Room 100, Santa Rosa, California, 95403-2871.

As of June 30, 2023, the fair value of the District's cash and investments was $865,081 which includes an unrealized loss in fair value adjustment of $29,650. Funds are held in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 539 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2023 are disclosed in the County's Annual Comprehensive Financial Report.

***B. 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. Due to the highly liquid nature of the District's investment with the Treasury Pool, the District's exposure to interest rate risk is deemed by management to be insignificant.

***C. Custodial Credit Risk***

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool.)

## NOTE 2 – CASH AND INVESTMENTS, Continued

### *D. Concentration of Credit Risk*

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no non-pooled investments in any one issuer that represent 5% or more of total District investments at the end of the fiscal year.

### *E. Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a credit rating. The District follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The credit ratings of investments held and other information regarding the Treasury Pool for the fiscal year ended June 30, 2023 are disclosed in the County's Annual Comprehensive Financial Report.

### *F. Fair Value Measurement*

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's cash held with fiscal agents (payroll and petty cash accounts) are valued using quoted prices in active markets for identical assets (Level 1). The District has a recurring fair value measurement for its investment in the Sonoma County Treasury Pool which is valued using significant other observable inputs (Level 2).

## NOTE 3 – ACCOUNTS PAYABLE

Accounts payable totaling $108,262 consist of payments due to vendors for goods and services.

## NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2023 was as follows:

| | Balance June 30, 2022 | Additions | Transfers | Balance June 30, 2023 |
|---|---|---|---|---|
| Non-depreciable assets: | | | | |
| Land | $ 417,205 | $ - | $ - | $ 417,205 |
| Intangible asset | 19,055 | - | - | 19,055 |
| Construction in process | - | 461,100 | - | 461,100 |
| Total non-depreciable assets | 436,260 | 461,100 | - | 897,360 |
| Depreciable assets: | | | | |
| Infrastructure | 16,882,596 | - | - | 16,882,596 |
| Machinery and equipment | 139,069 | - | - | 139,069 |
| Total depreciable assets | 17,021,665 | - | - | 17,021,665 |
| Accumulated depreciation: | | | | |
| Infrastructure | (5,943,959) | (374,089) | - | (6,318,048) |
| Machinery and equipment | (137,446) | (1,623) | - | (139,069) |
| Total accumulated depreciation | (6,081,405) | (375,712) | - | (6,457,117) |
| Total depreciable assets, net | 10,940,260 | (375,712) | - | 10,564,548 |
| **Total capital assets, net** | $ 11,376,520 | $ 85,388 | $ - | $ 11,461,908 |

Depreciation expense amounted to $375,712 for the fiscal year ended June 30, 2023.

## NOTE 5 – LONG TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2023, is noted below:

| | Balance June 30, 2022 | Additions | Retirements | Balance June 30, 2023 | Amount due within one year |
|---|---|---|---|---|---|
| Construction Loan - Direct Borrowing | $ 1,747,801 | $ - | $123,613 | $1,624,188 | $129,681 |
| Financed Purchase - Solar | - | 461,100 | 59,111 | 401,989 | 61,232 |
| Total long-term debt | $1,747,801 | $461,100 | $182,724 | $2,026,177 | $190,913 |

Construction Loan

On December 30, 2005, the District entered into an agreement with Municipal Finance Corporation for the purpose of refinancing the District's share in the outstanding Sonoma County Water & Wastewater Financing Authority Revenue Bonds of 1995, and the financing of wastewater system improvement projects. This loan

## NOTE 5 – LONG TERM DEBT, Continued

Of the $2,630,000 of debt issued in April 2013, $2,100,691 was issued to refinance the previously existing construction loan. The reacquisition price exceeded the net carrying amount of the old debt by $46,367 and is classified as a deferred charge on refunding in the Statement of Net Position. This amount is being amortized over the remaining life of the refunding debt. The current unamortized amount at June 30, 2023 is $7,728.

Finance Purchase - Solar

On June 1, 2022, the District entered into an agreement with U.S. Bancorp Governmental Leasing and Finance, Inc for the purpose for the purpose of obtaining financing for the construction of a floating solar photovoltaics system. The agreement bears an annual interest rate of 3.59% and matures on June 1, 2029.

Annual debt service requirements to maturity for each debt is a follows:

| For The Year | Construction Loan Payments | | | Finance Purchase - Solar | | |
|---|---|---|---|---|---|---|
| Ending June 30 | Principal | Interest | Total | Principal | Interest | Total |
| 2024 | $129,681 | $77,220 | $206,901 | $61,232 | $14,431 | $75,663 |
| 2025 | 136,047 | 70,854 | 206,901 | 63,431 | 12,233 | 75,664 |
| 2026 | 142,725 | 64,176 | 206,901 | 65,708 | 9,956 | 75,664 |
| 2027 | 149,731 | 57,169 | 206,900 | 68,067 | 7,597 | 75,664 |
| 2028 | 157,081 | 49,819 | 206,900 | 70,510 | 5,154 | 75,664 |
| 2029-2033 | 908,923 | 125,581 | 1,034,504 | 73,041 | 2,622 | 75,663 |
| | $1,624,188 | $444,819 | $2,069,007 | $401,989 | $51,993 | $453,982 |

## NOTE 6 – RISK MANAGEMENT

The District is covered under an insurance policy from the Special District Risk Management Authority for general liability, auto liability, public employee's performance/dishonesty, and property insurance. Settled claims have not exceeded coverage in any of the past three years.

## NOTE 7 – CONTINGENCIES

The District is exposed to the possibility of fines in relation to failure to meet certain pollution mitigation requirements. Management believes that the levying of fines is unlikely and is unable to estimate the possible amount of such fines, and therefore no liability has been recorded in connection with these fines as of June 30, 2023.

## NOTE 8 – DEFINED BENEFIT PENSION PLAN

### *A. General Information about the Pension Plan*

***Plan Description***

The District Board of Directors passed Board Resolution 170619A on June 19, 2017, authorizing the District to enter into a contract with the California Public Employees' Retirement System (CalPERS), effective July 1, 2017. All qualified permanent and probationary employees are eligible to participate in the District's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

***Benefits Provided***

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 provisions and benefits in effect at June 30, 2023, are summarized as follows:

| | Miscellaneous |
|---|---|
| Benefit formula | 2% at 62 |
| Benefit vesting schedule | 5 years service |
| Benefit payments | monthly for life |
| Retirement age | 52-67 |
| Monthly benefits, as a % of eligible compensation | 1.000% - 2.50% |
| Required employee contribution rates | 7.75% |
| Required employer contribution rates | 7.68% |

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be 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 Plans are 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 District contributed $14,560 to the Plan.

**NOTE 8 – DEFINED BENEFIT PENSION PLAN, Continued**

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

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

The District's net pension liability for the Plans is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2022, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 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 plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2021 and 2022 was as follows:

| | Miscellaneous |
|---|---|
| Proportion - June 30, 2021 | -0.00219% |
| Proportion - June 30, 2022 | 0.00045% |
| Change - Increase (Decrease) | 0.00264% |

For the year ended June 30, 2023, the District recognized pension expense of $102,399 At June 30, 2023, 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 |
|---|---|---|
| Pension contributions subsequent to measurement date | $17,424 | |
| Differences between expected and actual experience | 422 | $283 |
| Changes of assumptions | 2,153 | |
| Change in Employer's Proportion | | 4,657 |
| Change in proportion and differences between employer contributions and proportionate share of contributions | | 40 |
| Net difference between projected and actual earnings on pension plan investments | 3,849 | |
| Total | $23,848 | $4,980 |

## NOTE 8 – DEFINED BENEFIT PENSION PLAN, Continued

The $17,424 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 | Annual Amortization |
|---|---|
| 2024 | ($138) |
| 2025 | (336) |
| 2026 | (436) |
| 2027 | 2,354 |
| Thereafter | |
| Total | $1,444 |

***Actuarial Assumptions*** – For the measurement period ended June 30, 2021, the total pension liability was determined by rolling forward the June 30, 2020 total pension liability. The June 30, 2020 total pension liability was based on the following actuarial methods and assumptions for both benefit tiers.

| | Miscellaneous |
|---|---|
| Valuation Date | June 30, 2021 |
| Measurement Date | June 30, 2022 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 6.90% |
| Inflation | 2.30% |
| Projected Salary Increases | Varies by Entry-Age and Service |
| Investment Rate of Return | 6.90%(1) |
| Mortality Rate Table[1] | Derived using CalPERS Membership Data for all Funds |
| Post Retirement Benefit Increase | The lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.30% thereafter |

(1) The mortality table used was developed based on CalPERS- specific data. The table includes generational mortality improvements using the Society of Actuaries Scale 80% of scale MP 2020. For more details on this table, please refer to the November 2021 experience study report (based on CalPERS demographic data from 2001 to 2019) that can be found on the CalPERS website.

***Discount Rate*** – The discount rate used to measure the total pension liability for each Plan was 6.90%. The projection of cash flows used to determine the discount rate for each Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, each Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all plans in the PERF. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability for each Plan.

## NOTE 8 – DEFINED BENEFIT PENSION PLAN, Continued

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical and forecasted information for all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rates 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 Asset Allocation | Real Return 1,2 |
|---|---|---|
| Global Equity-Cap Weighted | 30.0% | 4.54% |
| Global Equity-Non-Cap Weighted | 12.0% | 3.84% |
| Private Equity | 13.0% | 7.28% |
| Treasury | 5.0% | 0.27% |
| Mortgage-backed Securities | 5.0% | 0.50% |
| Investment Grade Corporates | 10.0% | 1.56% |
| High Yield | 5.0% | 2.27% |
| Emerging Market Debt | 5.0% | 2.48% |
| Private Debt | 5.0% | 3.57% |
| Real Assets | 15.0% | 3.21% |
| Leverage | -5.0% | -0.59% |
| Total | 100% | |

(1) An expected inflation of 2.30% used for this period.
(2) Figures are based on the 2021 Asset Liability Management study.

## NOTE 8 – DEFINED BENEFIT PENSION PLAN, Continued

***Sensitivity of the Proportionate Share of the Net Pension lability to Changes in the Discount Rate*** – The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, 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:

| | Miscellaneous |
|---|---|
| 1% Decrease | 5.90% |
| Net Pension Liability | $54,052 |
| | |
| Current Discount Rate | 6.90% |
| Net Pension Liability (Asset) | $21,011 |
| | |
| 1% Increase | 7.90% |
| Net Pension Liability (Asset) | ($6,174) |

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

This Page Left Intentionally Blank