CITY OF SAN JOSE
WASTEWATER TREATMENT SYSTEM
(An Activity of the City of San José)

Independent Auditor's Reports,
Management's Discussion and Analysis,
Financial Statements, and
Required Supplementary Information

For the Year Ended June 30, 2024

Certified
Public
Accountants

CITY OF SAN JOSE
WASTEWATER TREATMENT SYSTEM
(An Activity of the City of San José)
For the Year Ended June 30, 2024

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Certified Public Accountants

Independent Auditor's Report

Honorable City Council of the City of San José
San José, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Wastewater Treatment System (WWTS), an activity of the City of San José, California (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the WWTS's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the WWTS as of June 30, 2024, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards)*. 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 City 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the financial statements of the WWTS are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities and major enterprise fund of the City that is attributable to the transactions of the WWTS. They do not purport to, and do not, present fairly the financial position of the City and the City's Wastewater Treatment System Enterprise Fund, as of June 30, 2024, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's 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.

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 GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over the WWTS. 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.

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 the proportionate share of the net pension liability, the schedule of employer contributions – defined benefit pension plan, the schedule of the proportionate share of the net OPEB liability, and the schedule of employer contributions – postemployment healthcare plan identified as required supplementary information in the accompanying table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Reconciliation of Net Position of the WWTS to the City's Annual Comprehensive Financial Report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 15, 2024 on our consideration of the City's internal control over the WWTS's financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the WWTS's financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the WTTS's financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 15, 2024

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CITY OF SAN JOSE
WASTEWATER TREATMENT SYSTEM

(An Activity of the City of San José)
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2024

Description of Reporting Entity

The following discussion and analysis pertain to the financial performance of the City of San José's Wastewater Treatment System ("WWTS"), an activity of the City of San José ("City") for the year ended June 30, 2024. The WWTS accounts for the financing, construction, and operations of the San José-Santa Clara Wastewater Treatment Plant ("Treatment Plant"), including the San José Sanitary Sewage Collection System.

The purpose of this financial report is to comply with the required annual disclosure for the Wastewater Revenue Bonds Series 2022B (Green Bonds – Climate Certified) ("2022B Bonds") issued through the San José Financing Authority in December 2022. Pursuant to Resolution No. 80770, a Resolution Providing for the Allocation of Wastewater System Revenues, the Pledge of Wastewater Net System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Wastewater Net System Revenues ("Master Resolution"), no revenues from the South Bay Water Recycling Program and System ("SBWR") will be pledged, or otherwise available for repayment of the 2022B Bonds. For this reason, this financial report excludes the financial and operational information regarding the SBWR.

Financial Statements

The financial statements of the WWTS represent a separate proprietary enterprise fund responsible for wastewater conveyance and treatment within a service area comprising 1.4 million customers. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* public programs like the WWTS, which engage solely in business-type activities, are required to present enterprise fund financial statements as follows: (1) statement of net position; (2) statement of revenues, expenses, and changes in net position; (3) statement of cash flows; and (4) notes to the financial statements.

The WWTS financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial Highlights

The following table indicates the net position on June 30, 2024, and 2023 (in thousands):

	2024	2023	$ Change	% Change
Current Assets	$ 501,661	$ 493,505	$ 8,156	1.7%
Restricted Assets	1	2	(1)	-50.0%
Capital Assets	1,353,394	1,287,202	66,192	5.1%
Total Assets	1,855,056	1,780,709	74,347	4.2%
Deferred Outflows of Resources	46,819	54,407	(7,588)	-13.9%
Current Liabilities	47,503	58,532	(11,029)	-18.8%
Noncurrent Liabilities	614,196	586,941	27,255	4.6%
Total Liabilities	661,699	645,473	16,226	2.5%
Deferred Inflows of Resources	5,176	14,652	(9,476)	-64.7%
Net Investment in Capital Assets	987,529	945,104	42,425	4.5%
Unrestricted	243,713	229,887	13,826	6.0%
Net Position	$ 1,231,242	$ 1,174,991	$ 56,251	4.8%

Summary of Statement of Net Position

The net position increased by $56.3 million or 4.8 percent from $1.17 billion to $1.23 billion. The largest portion, $987.5 million or 80.2 percent, of the net position was its net investment in capital assets (e.g., land, buildings, and infrastructure) less outstanding debt that was used to acquire those assets. Approximately $243.7 million, or 19.8 percent of the total net position, constitutes unrestricted net position, which may be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

The Other Information section of this report shows how the net position of the WWTS reconcile to the City's Wastewater Treatment System Enterprise Fund in the Annual Comprehensive Financial Report.

The following table indicates the changes in net position for the years ended June 30, 2024, and 2023 (in thousands):

	2024	2023	$ Change	% Change
Operating revenues	$ 261,837	$ 255,507	$ 6,330	2.5%
Operating expenses	216,464	207,172	9,292	4.5%
Operating income	45,373	48,335	(2,962)	-6.1%
Nonoperating revenues (expenses), net	8,879	(3,061)	11,940	-390.1%
Capital contributions	2,395	1,968	427	21.7%
Transfers out	(396)	(550)	154	-28.0%
Change in net position	56,251	46,692	9,559	20.5%
Net position, beginning of year	1,174,991	1,128,299	46,692	4.1%
Net position, end of year	$ 1,231,242	$ 1,174,991	$ 56,251	4.8%

Summary of Statement of Revenues, Expenses, and Changes in Net Position

Operating revenues increased $6.3 million primarily due to higher contributions from the City, the City of Santa Clara, and the Tributary Agencies due to higher operating costs.

Total operating expenses increased by $9.3 million compared to the prior fiscal year. The increase was mainly due to a net increase of $6.0 million in personal service costs driven by salary increases; a $5.0 million increase in condition assessment expenses and capital support costs of the wastewater collection system resulting from increase in professional services incurred; offset by a $1.8 million decrease in the Treatment Plant's program management costs.

Net nonoperating revenue increased by $11.9 million primarily due to a $11.2 million increase in investment income resulting from higher interest rates and the impact of fair value adjustments. Capital contributions increased by $0.4 million mainly due to an increase in donated assets from developers.

Capital Assets
As of June 30, 2024, the Treatment Plant has completed its 11th year of capital investment in long-term rehabilitation and modernization of its facility as part of the approved 2013 Plant Master Plan ("PMP"). The PMP recommends more than 114 capital improvement projects to be implemented over a 30-year planning period at an estimated investment level of approximately $2.0 billion. The PMP assumes an implementation schedule of 2010 through 2040.

The WWTS's capital assets, net of accumulated depreciation and amortization, amounted to $1.35 billion at June 30, 2024. This investment includes land, infrastructure, structures and improvements, vehicles, equipment, intangible investments, and construction in progress. The WWTS's decision to depreciate infrastructure capital assets results in recording a large non-cash depreciation expense each year that offsets additions to capital assets. For the year ended June 30, 2024, capital assets increased by $66.2 million. The increase was primarily due to total additions of $100.1 million, offset by current year depreciation and amortization of $33.6 million. The net increase in construction in progress of $75.0 million included current year additions of $86.9 million for projects including Digested Sludge Dewatering Facility, Filter Rehabilitation Project, Headworks Improvement, and Yard Piping & Road Improvements Project, partially offset by $11.9 million of projects completed and transferred to depreciable assets including Distributed Control System Updates and Replacement Project.

Capital assets, net of depreciation and amortization, are presented below to illustrate changes between June 30, 2024, and June 30, 2023 (in thousands):

	2024	**2023**	**$ Change**
Land	$ 41,588	$ 41,588	$ -
Construction in progress	779,324	704,352	74,972
Buildings	450,735	450,246	489
Vehicles and equipment	268,379	255,538	12,841
Other improvements	685,745	675,263	10,482
Right-to-use assets: SBITA	169	643	(474)
Less: Accumulated depreciation and amortization	(872,546)	(840,428)	(32,118)
Total capital assets, net	$ 1,353,394	$ 1,287,202	$ 66,192

Long-term Debt

On December 15, 2022, the City of San José Financing Authority ("Financing Authority") issued $268.4 million of the 2022B Bonds, and applied the net proceeds to refinance Wells Fargo Bank, National Association ("Wells Fargo") for Subordinate Wastewater Revenue Notes, Series A. The 2022B Bonds were issued as a long-term fixed-rate debt structure with level debt service.

On June 20, 2023, the City and Financing Authority approved resolutions authorizing the execution of a Fourth Amendment to the Credit Agreement and a Fourth Amended and Restated Fee Letter Agreement with Wells Fargo, related to the issuance by the Financing Authority of its Subordinate Wastewater Revenue Notes for a term through October 16, 2026, in an aggregate principal amount outstanding at any one time of up to $200 million, effective October 18, 2023. As of June 30, 2024, $40.1 million has been drawn on the credit line.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed in writing to the Director of Finance, City of San José, 200 E. Santa Clara Street, San José, CA 95113.

CITY OF SAN JOSE
WASTEWATER TREATMENT SYSTEM
(An Activity of the City of San José)
Statement of Net Position
June 30, 2024
($000's)

ASSETS		
Current assets:		
Equity in pooled cash and investments held in City Treasury	$	494,328
Receivables, net of allowances for uncollectible amounts:		
Accrued interest		2,201
Others		4,425
Inventories		707
Total current assets		501,661
Restricted assets:		
Cash held with fiscal agent		1
Total restricted assets		1
Noncurrent assets:		
Capital assets:		
Land		41,588
Construction in progress		779,324
Buildings		450,735
Vehicles and equipment		268,379
Other improvements		685,745
Right-to-use assets: Subscription Based Information Technology Arrangements (SBITA)		169
Less accumulated depreciation and amortization		(872,546)
Total capital assets		1,353,394
Total assets		1,855,056
DEFERRED OUTFLOWS OF RESOURCES		
Other postemployment benefits		7,834
Pension		38,985
Total deferred outflows of resources	$	46,819

The Notes to the Financial Statements are an integral part of this statement.

CITY OF SAN JOSE
WASTEWATER TREATMENT SYSTEM
(An Activity of the City of San José)
Statement of Net Position
June 30, 2024
($000's)

LIABILITIES		
Current liabilities:		
Accounts payable:		
Other	$	32,419
Accrued interest		2,429
Accrued salaries, wages, and payroll taxes		2,034
Accrued vacation, sick leave and compensatory time		4,964
Right-to-use liabilities : SBITA		18
Estimated liability for self-insurance		392
Bonds payable, net - current		5,247
Total current liabilities		47,503
Noncurrent liabilities		
Accrued vacation, sick leave and compensatory time		479
Right-to-use liabilities : SBITA		117
Estimated liability for self-insurance		1,213
Notes payable		40,098
Bonds payable, net		290,222
Pollution remediation obligation		27,051
Net other postemployment benefit liability		44,599
Net pension liability		210,417
Total noncurrent liabilities		614,196
Total liabilities		661,699
DEFERRED INFLOWS OF RESOURCES		
Other postemployment benefits		5,176
Pension		3,758
Total deferred inflows of resources		8,934
NET POSITION		
Net investment in capital assets		987,529
Unrestricted		243,713
Total net position	$	1,231,242

The Notes to the Financial Statements are an integral part of this statement.

CITY OF SAN JOSE
WASTEWATER TREATMENT SYSTEM
(An Activity of the City of San José)
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2024
($000's)

OPERATING REVENUES		
Charges for services:		
Tributary Agencies operational revenue	$	23,062
Sewer service and use charges		190,531
Rentals and concessions:		
Receiving station revenue		205
Service connection, engineering and inspection		2,105
Contributions from the City of Santa Clara		31,052
Other contributions from the Tributary Agencies		14,882
Total operating revenues		261,837
OPERATING EXPENSES		
Operation and maintenance		147,297
General and administrative		34,978
Depreciation and amortization		33,552
Materials and supplies		637
Total operating expenses		216,464
Operating income		45,373
NONOPERATING REVENUES (EXPENSES)		
Investment income		21,621
Land and building rental		289
Interest expense and fees		(12,971)
Loss on disposal of fixed assets		(60)
Net nonoperating revenues		8,879
Income before capital contributions and transfers		54,252
Capital contributions		2,395
Transfers out		(396)
Change in net position		56,251
Net position - beginning		1,174,991
Net position - ending	$	1,231,242

The Notes to the Financial Statements are an integral part of this statement.

CITY OF SAN JOSE
WASTEWATER TREATMENT SYSTEM
(An Activity of the City of San José)
Statement of Cash Flows
For the Year Ended June 30, 2024
($000's)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	$ 228,831
Contributions	31,052
Payments to suppliers	(56,240)
Payments for City services	(29,206)
Payments to employees	(103,162)
Net cash provided by operating activities	71,275
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers out	(396)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from revenue notes	40,000
Interest and fees paid	(14,023)
Debt principal paid	(3,950)
SBITA payment	(35)
Contributed capital	299
Acquisition of capital assets	(108,866)
Net cash used in capital and related financing activities	(86,575)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment interest received	21,396
Land and building rentals	279
Net cash provided by investing activities	21,675
Net increase in cash and cash equivalents	5,979
Cash and cash equivalents - beginning	488,350
Cash and cash equivalents - ending	$ 494,329

The Notes to the Financial Statements are an integral part of this statement.

CITY OF SAN JOSE
WASTEWATER TREATMENT SYSTEM
(An Activity of the City of San José)
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2024
($000's)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$	45,373
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization		33,552
Increase in:		
Accounts receivable, net		(1,907)
Inventory		(34)
Increase (decrease) in:		
Accounts payable		(1,528)
Accrued salary, wages, and payroll taxes		587
Accrued vacation, sick leave and compensatory time		264
Estimated liability for self-insurance		275
Net pension liability, deferred outflows and inflow of pension related resources		(2,722)
Net other postemployment benefits liability, deferred outflows and inflows of postemployment benefits related resources		(1,684)
Other liabilities		(901)
Net cash provided by operating activities	$	71,275
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION:		
Equity in pooled cash and investments held in City Treasury		
Unrestricted	$	494,328
Cash held with fiscal agents		1
Total cash and cash equivalents	$	494,329
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Loss on disposal of capital assets	$	(60)
Donated assets		2,096
Change in capital related payables		(10,819)
Change in fair value of investments		6,714
Amortization of bond premium		1,092
Amortization of right-to-use SBITA assets		(19)
Interest expense of right-to-use SBITA liabilities		(2)
Termination and remeasurement of SBITA liabilities		(335)

The Notes to the Financial Statements are an integral part of this statement.

NOTE 1 – DESCRIPTION OF WASTEWATER TREATMENT OPERATIONS

(a) Overview

The Wastewater Treatment System ("WWTS") accounts for the activities of the San José-Santa Clara Wastewater Treatment Plant ("Treatment Plant") and the City of San José sanitary sewer collection and conveyance system ("Collection System"). The Treatment Plant is co-owned by the City of San José ("City") and the City of Santa Clara and treats wastewater for over 1.4 million residents and thousands of businesses in the cities of San José, Santa Clara, Milpitas, Campbell, Los Gatos, Monte Sereno, Cupertino, and unincorporated areas of the County of Santa Clara ("County"). The City also owns and operates the Collection System, which provides wastewater collection service for the City and includes approximately 2,030 miles of wastewater collection system pipeline that conveys wastewater to the Treatment Plant.

These financial statements do not include the financial and operational information regarding the South Bay Water Recycling Program and System ("SBWR").

(b) Governance

The City acts as the administering agency for the Treatment Plant under the terms of the Sewage Treatment Plant Agreement, dated May 6, 1959 ("1959 Agreement"), between the City and the City of Santa Clara, and under separate agreements among the respective Tributary Agencies, the City, and the City of Santa Clara (as amended from time to time, each, a "Master Agreement," and collectively, the "Master Agreements").

As the administering agency, the City has the authority and responsibility for operating the Treatment Plant and determining annual operating and capital costs. The Treatment Plant Advisory Committee ("TPAC"), required by the 1959 Agreement and the Master Agreements, advises the City and the City of Santa Clara on the operation, maintenance, repair, and improvement of the Treatment Plant, and the development and administration of related programs and policies. The TPAC also advises the City and the City of Santa Clara on administrative matters including amendments to contracts and agreements, the sale of capacity rights in the Treatment Plant, and other matters, including the annual budget process.

The TPAC meets monthly and consists of nine members. Pursuant to the Master Agreements, members include three members from the City Council of the City of San José, two members from the City Council of the City of Santa Clara, and one representative of the City Manager's Office of the City. The remaining members consist of representatives from the City of Milpitas, Cupertino Sanitary District, and the West Valley Sanitation District. The TPAC members are appointed by, and serve at the pleasure of, the governing body of such members.

The City regulates wastewater generated within its jurisdictional boundaries by ordinance. Pursuant to the Master Agreements, each Tributary Agency is required to adopt and enforce ordinances, resolutions, rules, and regulations to conform to the City's ordinance. Any waiver of such ordinances, resolutions, rules, and regulations of the Tributary Agencies must be authorized by written resolution of the City Councils of the City and the City of Santa Clara. The Tributary Agencies have also agreed to comply with the applicable statues, ordinances, rules, and regulations of agencies of the United States of America, and the State of California, including the National Pollutant Discharge Elimination System ("NPDES") Permit (as hereinafter defined).

(c) Operations

The City constructed the original portion of the Treatment Plant in 1956, which consisted only of primary treatment facilities with a capacity of 36 million gallons per day ("mgd") designed to treat organic waste from canneries. In 1959, the City and the City of Santa Clara entered into the 1959 Agreement pursuant to which, among other things, the City of Santa Clara became a co-owner of the Treatment Plant and helped finance improvements to expand the capacity of the Treatment Plant to 54 mgd.

A secondary treatment plant was completed in 1964, and minor additions were made in 1965, 1966 and 1968. Additional primary, secondary and chlorination facilities were completed in 1970. In early 1979, the advanced wastewater treatment facilities including the nitrification and filtration processes were completed. In the mid-1980s, the treatment facilities expanded to the present 167 mgd capacity, and the Master Agreements were executed with the Tributary Agencies to memorialize their participation in the expansion. The Master Agreements with each of the Tributary Agencies were amended over the years to memorialize participation in the SBWR.

In addition to the original construction and subsequent treatment process expansions described above, several significant infrastructure investments have been made at the Treatment Plant over the past 25 years. Such improvements include the wet weather reliability improvement project (2007), the sodium hypochlorite disinfection facility which converted to sodium hypochlorite for the disinfection process, greatly reducing the public safety risk from the Treatment Plant (2011), electrical reliability improvements (2004-2013), digester gas storage rehabilitation (2016), digester gas compressor upgrades (2017), emergency diesel generators (2017), iron salt feed station (2018), the cogeneration facility (2021), and biosolids (2024).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Governmental Accounting Standards Board ("GASB") is responsible for establishing U.S. GAAP for state and local governments through its pronouncements. The WWTS is reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned, and expenses are recognized when liabilities are incurred. Enterprise fund-type operating statements present increases (revenues) and decreases (expenses) in total net position.

The WWTS is an activity of the City's Wastewater Treatment System Enterprise Fund. WWTS's financial statements are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and major enterprise fund of the City that is attributable to the transactions of WWTS. They do not purport to, and do not, present fairly the financial position of the City and the City's Wastewater Treatment System Enterprise Fund, as of June 30, 2024, the changes in its financial position, or, where applicable, its cash flows for the year ended in accordance with U.S. GAAP.

(b) Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(c) Revenue Recognition

The WWTS recognizes revenue using the accrual basis of accounting. This includes invoices issued to the Tributary Agencies that share treatment plant services as well as the wire transfers from the County property tax rolls.

(d) Equity in Pooled Cash and Investments Held in City Treasury

The cash balances of the WWTS Fund are pooled and invested by the City Treasurer (i.e., Director of Finance) unless otherwise dictated by legal or contractual requirements. The income and losses arising from the investment activity of pooled cash are allocated to the participating funds and component units on a monthly basis, based on their proportionate shares of the average weekly cash balance.

Pooled cash and investments in the City Treasury are considered to be cash and cash equivalents for purposes of the accompanying statement of cash flows. Pooled cash and investments represent deposits and investments held in the City's cash management pool. This cash management pool possesses the characteristics of a demand deposit account; therefore, investments in this pool are considered to be cash equivalents. The WWTS also considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(e) Capital Assets

Capital assets include land, buildings, improvements, vehicles and equipment, infrastructure, and all other tangible assets that are used in operations and that have initial useful lives in excess of one year. Capital assets are defined as assets with an initial individual cost of more than $5,000 for general capital assets and $100,000 for major infrastructure assets, and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the time received.

Buildings, improvements, infrastructure, vehicles and equipment, and furniture and fixtures are depreciated using the straight-line method over the following estimated useful lives:

Buildings	5 - 40 years
Improvements, other than buildings	10 - 50 years
Infrastructure	25 - 50 years
Vehicles and equipment	2 - 40 years
Furniture and fixtures	10 years

The WWTS recognizes intangible right-to-use Subscription-Based Information Technology Arrangements ("SBITA") asset when the applicable accounting criteria is met. The capitalization threshold for the WWTS as a subscriber is an initial cost of more than $250,000 per item at its net present value for software subscriptions. The subscription asset must also have an initial useful life of more than one year. The intangible right-to-use assets are reported as capital assets. The SBITA asset is amortized on a straight-line basis over the shorter of the subscription term or useful life.

(f) Accrued Vacation, Sick Leave, and Compensatory Time

Vested vacation, sick leave, compensatory time, and related benefits are accrued when incurred.

(g) Defined Benefit Plans

1. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the WWTS's participation in the Federated City Employees' Retirement System ("FCERS"), and additions to/deductions from the FCERS' fiduciary net position have been determined on the same basis as they are reported by the FCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. FCERS' investments are reported at fair value. While the City reports its pension plan managed by FCERS as a single employer defined benefit pension plan, the WWTS recognizes a proportionate share of its participation in FCERS based on the WWTS pension contributions relative to the total City pension contributions to FCERS. For more information regarding the WWTS retirement benefits, please refer to Note 7 and the Required Supplementary Information ("RSI") section.

2. Other Postemployment Benefits

For purposes of measuring the net Other Postemployment Benefits ("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 WWTS's participation in the FCERS, and additions to/deductions from the FCERS' fiduciary net position have been determined on the same basis as they are reported by the FCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. FCERS investments are reported at fair value. While the City reports its OPEB plan managed by FCERS as a single employer defined benefit OPEB plan, the WWTS recognizes a proportionate share of its participation in the FCERS OPEB plan based on the WWTS OPEB contributions relative to the total City OPEB contributions to FCERS. For more information regarding the WWTS OPEB benefits, please refer to Note 8 and the RSI section.

(h) Net Position

Net Position is classified in the following three components:

<u>*Net Investment in Capital Assets*</u> groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation/amortization, and the outstanding balances of debt and deferred outflows/inflows of resources associated with debt that are attributable to acquisition, construction, or improvement of these assets reduces the balance in this category**.**

<u>*Restricted Net Position*</u> consists of the constraints placed on the net asset use by external creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

<u>*Unrestricted Net Position*</u> consists of the remaining balance of net position not subject to the aforementioned categorizations.

When both restricted and unrestricted resources are available for use, it is the WWTS's policy to use restricted resources first and then unrestricted resources, as needed.

(i) Operating Revenues and Expenses

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the WWTS's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. In addition, contributions from other participating agencies for their allocation of the operating and maintenance expenses, their share of debt service, and other commitments and costs towards the improvements are also included as operating revenues. Operating expenses include the cost of sales and services, administrative expenses and depreciation and amortization on capital assets. All revenues and expenses, not meeting this definition are reported as nonoperating revenues and expenses.

(j) Interfund Transactions

Interfund transactions are reflected as services provided, reimbursements and/or transfers. Services provided are deemed to be at market or near market rates and are treated as revenues and expenditures/expenses in the fund receiving revenue or being charged. Reimbursements are defined as when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

(k) New Pronouncements

During the year ended June 30, 2024, the City and the WWTS implemented the following GASB Statements:

The City and the WWTS adopted the remaining requirements for GASB Statement No. 99, *Omnibus 2022* related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The application of Statement No. 99 did not have any effect on the WWTS's financial statements.

The City and the WWTS adopted GASB Statement No. 100, *Accounting Changes and Error Corrections*. In June 2022, GASB issued this statement as *an amendment of GASB Statement No. 62*. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This statement also addresses corrections of errors in previously issued financial statements. The application of Statement No. 100 did not have any effect on the WWTS's financial statements.

The WTWS is currently analyzing its accounting practices to determine the potential impact on the financial statements for the upcoming GASB Statements:

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. This statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. The requirements of this statement will take effect for financial statements starting with the fiscal year that ends June 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures.* The objective of this statement is to provide users of government financial statements the definition of concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The requirements of this statement will take effect for financial statements starting with the fiscal year that ends June 30, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements.* The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues. This statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). The MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This statement emphasizes that the analysis provided in the MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this statement continues the requirement that information included in the MD&A distinguish between that of the primary government and its discretely presented component units. The requirements of this statement will take effect for financial statements starting with the fiscal year that ends June 30, 2026.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The purpose of this statement is to provide users of governmental financial statements with essential information about certain types of capital assets. It requires certain types of capital assets to be disclosed separately within the capital assets note disclosures required by Statement 34. These include lease assets recognized under Statement No. 87 (*Leases*), intangible right-to-use assets recognized under Statement No. 94 (*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*), and subscription assets recognized under Statement No. 96 (*Subscription-Based Information Technology Arrangements*). These assets must be disclosed separately by major class of underlying asset in the capital assets note disclosures. In addition, intangible assets other than those three types must also be disclosed separately by major class. The statement further requires additional disclosures for capital assets that are held for sale. The requirements of this statement will take effect for financial statements starting with the fiscal year that ends June 30, 2026.

NOTE 3 – CASH AND INVESTMENTS

The WWTS's cash and investments as of June 30, 2024 is classified in the financial statements as follows (in thousands):

Unrestricted equity in pooled cash and investments held in City Treasury	$	494,328
Restricted cash held with fiscal agent		1
Total cash and investments	$	494,329

(a) Nature of Cash

The WWTS maintains all its cash as deposits in the City pooled cash and investments held in the City Treasury. The pool is managed by the City's Treasurer and the WWTS has an equity share in the pool as reflected in the accounting records. Funds from the operating account are used to disburse funds for operations and capital outlays, under the direction of the WWTS. The receipts account is in the name of the City and is under the custodianship of the City. All revenues collected by the WWTS are deposited into the WWTS depending on the program they support.

A restricted cash account with a balance of $1,000 is maintained as part of a rate stabilization reserve for the City of San José's rate payers.

(b) Pooled Cash and Investments held in the City Treasury

The City Council adopted an investment policy ("Investment Policy") on April 2, 1985, related to the City cash and investment pool, which is subject to annual review and was reviewed and amended on March 5, 2024. The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Investment Policy, the investments conform to Sections 53600 et seq. of the California Government Code, and the applicable limitations contained within the Investment Policy.

The WWTS invests funds subject to the Investment Policy. According to the Investment Policy, the WWTS is permitted to invest in the City cash and investment pool, the State of California Local Agency Investment Fund ("LAIF"), obligations of the U.S. Treasury or U.S. Government Agencies, time deposits, investment agreements, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

As of June 30, 2024, the WWTS's share of the City cash and investment pool totaled $494.3 million. It is not possible to disclose relevant information about the WWTS's separate portion of the cash and investment pool, as there are no specific investments belonging to the WWTS itself. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2024 Annual Comprehensive Financial Report ("ACFR"). A copy of that report may be obtained by visiting the City's website at www.sanjoseca.gov or by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113.

(c) Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, debt investments with fixed coupons for longer terms are subject to more variability in their value as a result of changing interest rates. The City manages its exposure to interest rate risk by capping the weighted average maturity of the investment portfolio at 2.5 years (or 913 days). Also, the City sets the maximum maturity for every investment at the time of purchase by asset class, with the longest not to exceed five years.

In practice, the City purchases a combination of short-term and long-term investments, and times the cash flows to meet liquidity needs for operations. The weighted average days to maturity of the City's pooled cash and investments on June 30, 2024, was approximately 581 days.

(d) Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. When investing, the City applies the Prudent Investor Standard and acts with care, prudence, and diligence to safeguard the principal, maintain liquidity, and seek reasonable yields. The City's investment policy has strict rating requirements. The City manages credit risk by selecting high quality securities, diversifying the portfolio, and establishing monitoring procedures.

(e) Concentration of Credit Risk

It is not possible to disclose relevant information about the WWTS's separate portion of the cash and investment pool, as there are no specific investments in the City's cash and investment pool belonging to the WWTS itself. The Investment Policy sets forth the policies regarding concentration of credit risk.

As of June 30, 2024, the City's pooled investments in the City Treasury have investments that represent 5% or more of the total pooled investments in the following:

Federal Home Loan Bank	21.9%
Federal Home Loan Mortgage Corporation	13.3%
Federal National Mortgage Association	7.1%

NOTE 4 – ACCOUNTS RECEIVABLE

The accounts receivable balance as of June 30, 2024, was $6.6 million, which consists of approximately $2.2 million in accrued interest and $4.4 million in other receivables, net of allowance. Management estimated uncollectible amounts to be $0.6 million at June 30, 2024, using its calculation methodology based on historical experience and current market conditions. Approximately 95% of the City's Sewer Service and Use Charge revenues are billed and collected through the tax rolls under a Teeter Plan in place with the County. The County then transfers the collected revenue to the City via wire transfer. The remaining 5% of the charges are billed directly to customers by the City.

NOTE 5 – CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended June 30, 2024 (in thousands):

	Balance July 1, 2023	Additions	Deletions	Transfers	Balance June 30, 2024
Capital assets, not being depreciated					
Land	$ 41,588	$ -	$ -	$ -	$ 41,588
Construction in progress	704,352	86,891	-	(11,919)	779,324
Total capital assets, not being depreciated	745,940	86,891	-	(11,919)	820,912
Capital assets, being depreciated and amortized:					
Buildings	450,246	43	41	487	450,735
Vehicles and equipment	255,538	2,727	1,318	11,432	268,379
Other improvements	675,263	10,482	-	-	685,745
Right-to-use assets: SBITA	643	-	474	-	169
Total capital assets, being depreciated	1,381,690	13,252	1,833	11,919	1,405,028
Less accumulated depreciation and amortization:					
Buildings	(311,802)	(11,680)	(41)	-	(323,441)
Vehicles and equipment	(174,474)	(8,374)	(1,258)	-	(181,590)
Other improvements	(353,998)	(13,479)	-	-	(367,477)
Right-to-use assets: SBITA	(154)	(19)	(135)	-	(38)
Total accumulated depreciation and amortization	(840,428)	(33,552)	(1,434)	-	(872,546)
Total capital assets, being depreciated and amortized, net	541,262	(20,300)	399	11,919	532,482
Total capital assets, net	$ 1,287,202	$ 66,591	$ 399	$ -	$ 1,353,394

Depreciation and amortization expense was $33.6 million for the year ended June 30, 2024.

NOTE 6 – LONG-TERM OBLIGATIONS

(a) City of San José Financing Authority Subordinate Wastewater Revenue Notes

The City, the Financing Authority, and Wells Fargo Bank, National Association ("Wells Fargo") are parties to a Credit Agreement dated as of October 1, 2017, as amended by subsequent amendments, including a Fourth Amendment to the Credit Agreement dated June 29, 2023, ("Credit Agreement") pursuant to which the Financing Authority has issued to Wells Fargo (i) a subordinate tax-exempt wastewater revenue note in an amount not to exceed $200 million and (ii) a subordinate taxable wastewater revenue note in an amount not to exceed $200 million outstanding at any one time. The

Credit Agreement is an interim financing program under a three-year contract that enables the issuance of subordinate wastewater revenue notes that can be outstanding at any one time in an amount not to exceed $200 million to finance capital improvements at the Treatment Plant. Advances on the notes will be made on a regular basis to reimburse the City for capital costs incurred at the Treatment Plant. Total notes outstanding as of June 30, 2024, were $40.1 million.

In the event that the notes are not refinanced as anticipated, the Credit Agreement provides for repayment of the notes following the termination of the Credit Agreement. Assuming no events of default under the Credit Agreement have occurred and subject to the City and the Financing Authority making certain representations and warranties, if the Financing Authority fails to repay the unpaid notes on the Termination Date (as defined in the Credit Agreement), the unpaid notes will bear interest at the Bank Rate (as defined in the Credit Agreement) and will be amortized in equal quarterly installments over a period ending three years following the Termination Date of the Credit Agreement.

The source of repayment of the notes, including associated fee and interest costs, is installment payments made to the Financing Authority by the City from pledged net system revenues received by the City, related to the Wastewater Treatment System, pursuant to a Subordinate Installment Purchase Contract, dated as of October 1, 2017, by and between the City and the Financing Authority, and City Resolution No. 80770, which amended and restated City Resolution No. 78382 (the "Master Resolution"), and which provides for the allocation and pledge of Net System Revenues to secure the payment of the wastewater revenue obligations payable from Wastewater Net System Revenues. Payments on the notes are subordinate to payments on the 2022B Bonds and will be subordinate to payments on long-term bonds issued in the future.

On June 20, 2023, the City Council and the Financing Authority Board approved the Fourth Amendment to the Credit Agreement and a related Fourth Amended and restated Fee Letter Agreement with Wells Fargo, which extended the Termination Date of the Credit Agreement through October 16, 2026, and reduced the aggregate principal amount of the notes that can be outstanding at any one time from $300 million to $200 million.

Events of default under the Credit Agreement by the City or the Financing Authority include: (i) non-payment; (ii) default under any the Related Documents (as defined in the Credit Agreement); (iii) bankruptcy; (iv) a breach of various covenants, including financial covenants to maintain 115% of Debt Service on Parity Obligations (as defined in the Master Resolution) and 110% of Debt Service on Parity Obligations and Subordinate Obligations (as defined in the Master Resolution); (v) breach of representations and warranties; (vi) default with respect to a Material Debt (as defined in the Credit Agreement); (vii) final judgment of $10 million or more against the City or the Financing Authority payable from System Revenues; (viii) City or Financing Authority contesting the validity of obligations related to payment of the notes or a determination by a court of competent jurisdiction that the obligations of the City or the Financing Authority related to payment of the notes are not valid or binding; (ix) invalidity of a Lien (as defined in the Credit Agreement) created by the Credit Agreement or the Related Documents; and (x) ratings events including downgrades by any of Moody's, S&P, Fitch, or Kroll of its long term ratings on long-term debt that constitutes Parity Obligations under the Master Resolution below "A3," "A-," "A-" or "A-," respectively.

Wells Fargo has certain rights and remedies upon the occurrence and continuance of specified events of default in the Credit Agreement including (i) by notice to the Financing Authority and the City to terminate Wells Fargo's commitment to make advances under the notes; (ii) exercise rights and remedies under the Related Documents (as defined in the Credit Agreement); (iii) exercise rights and remedies at law or in equity; (iv) bring action in mandamus or other action or proceeding to compel performance by the Financing Authority and/or the City under the Master Resolution or Installment Purchase Agreement; and (v) appointment of a trustee to protect and enforce Wells Fargo's rights.

In addition to these rights and remedies, Wells Fargo has the right to accelerate repayment of the notes, which is automatic in the case of bankruptcy. The Credit Agreement includes subjective acceleration provisions in the event that: (i) the City fails to comply with laws and contracts, which in the reasonable opinion of Wells Fargo, would materially adversely affect the rights of Wells Fargo or the City's ability to perform its obligations under the Credit Agreement; (ii) either the City or the Financing Authority fails to promptly pay taxes, assessments or government charges which if not paid would likely result in a material adverse effect (defined below); and (iii) either the City or the Financing Authority breaches its covenant to promptly inform Wells Fargo of an event that could reasonably be expected to result in a material adverse change (defined below) or which could be expected to result in a material adverse effect. Under the Credit Agreement, a material adverse change and a material adverse effect are defined as any event or change, in Wells Fargo's sole discretion, which materially and adversely affects (i) the enforceability of the Credit Agreement or any related document; (ii) the ability of the City or the Financing Authority to perform their respective obligations under the Credit Agreement or any related document; or (iii) Wells Fargo's rights and remedies.

As of June 30, 2024, the Financing Authority has drawn $40.1 million of the aggregated principal amount of $200 million available under the credit agreement as follows (in thousands):

	July 1, 2023	Additions	Deletions	June 30, 2024	Interest Rate at June 30, 2024
Note Payable	$ 98	$ 40,000	$ -	$ 40,098	4.67%

(b) City of San José Financing Authority Wastewater Revenue Bonds Series 2022B (Green Bonds – Climate Bond Certified)

On December 15, 2022, the City of San José Financing Authority issued $268.4 million of the Wastewater Revenue Bonds, Series 2022B (Green Bonds – Climate Bond Certified), ("2022B Bonds") to refinance the Financing Authority's outstanding Subordinate Wastewater Revenue Notes, Series A. The 2022B Bonds were issued as a long-term fixed-rate debt structure with level debt service. As of June 30, 2024, the underlying credit ratings of the Wastewater Revenue Bonds by S&P, Fitch, and Kroll are AAA, AAA, and AAA, respectively.

The Financing Authority issued the 2022B Bonds to refinance the Financing Authority's outstanding Subordinate Wastewater Revenue Notes, Series A. The Financing Authority issued the Bonds pursuant to a master indenture with a trustee bank ("Trustee"). The Master Indenture and the City specify the events of default as follows: (i) failure to pay debt service, or redemption premium due when; (ii) failure to comply with covenants and conditions of the Master Indenture and such default shall have continued for a specified period of days following the Financing Authority's receipt from the Trustee; (iii) bankruptcy or similar debtor relief proceedings; (iv) or payment of any installment payment under the master installment purchase contract. Upon an event of default under the Master Indenture, the Trustee may, and upon the written request of the holders of a majority in principal amount of the 2022B Bonds then outstanding, and in each case so long as the Trustee is indemnified to its satisfaction therefore, shall proceed to protect or enforce its rights or the rights of the holders of the 2022B Bonds hereunder by a suit in equity or action at law that the Trustee shall deem appropriate in support of any of its rights and duties.

The bonds remaining amount due are in annual installments of $4.15 million to $16.85 million, bearing an interest rate of 5%. The bonds and mature on November 1, 2052.

The following is a summary of the bonds payable activity for the year ended June 30, 2024, (in thousands):

	July 1, 2023	Additions	Reductions	June 30, 2024	Amounts Due Within One Year
Revenue Bonds	$ 268,355	$ -	$ (3,950)	$ 264,405	$ 4,155
Issuance Premiums	32,157	-	(1,092)	31,065	1,092
	$ 300,512	$ -	$ (5,042)	$ 295,470	$ 5,247

The annual requirements to amortize the bonds outstanding as of June 30, 2024, are as follows (in thousands):

Year Ending June 30	Principal	Interest
2025	$ 4,155	$ 13,116
2026	4,365	12,903
2027	4,590	12,680
2028	4,825	12,444
2029	5,075	12,197
2030-2034	29,545	56,803
2035-2039	37,945	48,409
2040-2044	48,720	37,630
2045-2049	62,565	23,788
2050-2053	62,620	6,458
	$ 264,405	$ 236,428

(c) Other Long-Term Liabilities

The following is a summary of the other long-term liabilities activity for the year ended June 30, 2024, (in thousands):

	July 1, 2023	Additions	Reductions	June 30, 2024	Amounts Due Within One Year
Accrued Vacation, Sick Leave, and Compensatory Time	$ 5,179	$ 264	$ -	$ 5,443	$ 4,964
Right-To-Use Liabilities : SBITA	505	-	(370)	135	18
Self-Insurance	1,330	275	-	1,605	392
	$ 7,014	$ 539	$ (370)	$ 7,183	$ 5,374

NOTE 7 – DEFINED BENEFIT RETIREMENT PLAN

(a) General Information

The City sponsors and administers a single employer defined benefit retirement system, Federated City Employees' Retirement System ("FCERS" or "Retirement System") which, with the exception of certain unrepresented employees, covers all full-time and certain part-time employees of the City. The FCERS provides general retirement benefits under a single employer Defined Benefit Pension Plan, as well as the Postemployment Healthcare Plan. All full-time and certain part-time employees in the WWTS are in the FCERS. The FCERS is administered by the Chief Executive Officer of the Office of Retirement Services, an employee of the City, who serves at the pleasure of the Board of Administration for the FCERS.

The separately issued annual report of the FCERS, together with various chapters in Title 3 of the City Municipal Code, provides more detailed information about the FCERS, and may be obtained from the City of San José Office of Retirement Services, 1737 North First Street, Suite 600, San José, California 95112 or at http://www.sjretirement.com. The WWTS presents the related defined benefit disclosures of FCERS as a participant in a cost-sharing arrangement with the City.

(b) Benefits Provided

The FCERS provides general retirement benefits, including pension, death, and disability benefits to its members. The FCERS benefits are based on average final compensation, years of service, and cost of living increases as specified by the City Municipal Code. The contribution and benefit provisions and all other requirements are established by the City Charter and the City Municipal Code. Information regarding disability and death benefits can be found in the annual report of the FCERS and on the Office of Retirement Services website.

Effective June 18, 2017, the FCERS has several Tiers as follows:

FCERS Membership Tiers

Tier	Hire Date	Pension	Defined Benefit Retiree Healthcare (Medical/Dental)
Tier 1	• On or before September 29, 2012 • Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions	Tier 1	Medical/Dental[(2)(4)]
Tier 1 Rehire	• Former Tier 1 rehired on or after September 30, 2012 through June 17, 2017	Tier 1[(1)]	Medical/Dental[(2)(4)(5)]
Tier 1 Classic	• "Classic" membership with California Public Employees' Retirement System ("CalPERS")/reciprocal agency hired on or after September 30, 2012, but before September 27, 2013	Tier 1[(6)]	Medical/Dental
	• "Classic" membership with CalPERS/reciprocal agency hired on or after September 27, 2013	Tier 1[(6)]	Not Eligible(3)(4)
Tier 2 (or Tier 2A)	• Hired/rehired/reinstated on or after September 30, 2012, but before September 27, 2013	Tier 2	Medical/Dental[(2)(4)]
Tier 2B	• Hired/rehired/reinstated after September 27, 2013 and have not met City's eligibility for retiree healthcare	Tier 2	Not Eligible[(3)(4)]

(1) Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.

(2) Employees in these tiers were provided a one-time irrevocable election to remain in the Federated Healthcare Plan or opt into the Federated Voluntary Employees' Beneficiary Association ("VEBA"). Employees that opted into the Federated VEBA are not eligible for Federated Healthcare Plan. The Federated VEBA was implemented on March 25, 2018.

(3) Employees in these tiers were mandatorily placed into the Federated VEBA.

(4) Unrepresented employees were eligible to opt into the Federated VEBA but are not eligible to make ongoing contributions to the Federated VEBA.

(5) All Tier 1 rehires formerly in Tier 2B and Tier 2C who opted to remain in the Federated Healthcare Plan began contributing to the Federated Healthcare Plan on March 25, 2018.

(6) Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the "Classic" tier regardless of start date.

The following tables summarize the benefits for FCERS members:

	FCERS			
	Tier 1 (1)	**Tier 1 Classic** (2)	**Tier 2A** (3)	**Tier 2B** (4)
Pension				
Service required to leave contributions in retirement system	5 years		5 years Federated City Service (Year of Service = 2080 hours worked in the applicable 12-month period)	
Service Retirement				
Age/Years of Service	55 with 5 years service 30 years service at any age		62 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service. A reduction factor of 5% per year for each year between age 55 and the Tier 2 member's age at retirement before age 62, prorated to the closest month.	
"Deferred Vested" retirement	55 with 5 years service (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.)		May commence on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 55 with reduction factor of 5% per year for each year between age 55 and the Tier 2 member's age at retirement before age 62, prorated to the closest month.	
Allowance	2.5% x Years of Service x Final Compensation (75.0% max) Final Compensation is the highest average monthly earnable pensionable salary during 12 consecutive months, capped at 108% of the second highest 12 comsecutive months. **Tier 1**:If separation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months **Tier 1 Classic:** If separation takes place on or after July 1, 2001, Final Compensation is highest average monthly salary during 12 consecutive months. If seperation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months.		2.0% x Years of Federated City Service x Final Compensation (70.0% max) "Final Compensation" is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service Excludes premium pay or any other forms of additional compensation	
Disability Retirement (Service Connected)				
Minimum Service	None		None	
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation)		2% x Years of Federated City Service x Final Compensation (Minimum of 40.0% and maximum of 70.0% of Final Compensation)	

	FCERS (Continued)			
	Tier 1 (1)	Tier 1 Classic (2)	Tier 2A (3)	Tier 2B (4)
Disability Retirement (Non-Service Connected)				
Minimum Service	5 years		5 years	
Allowance	**Tier 1:** 20% of Final Compensation for up to 6 years of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of services. (Maximum 75% of Final Compensation). For those who entered the Retirement System on 8/31/98 or before, the calculation is as follows: 40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation) If under 55 years old, subtract 0.5% for every year under age 55 **Tier 1 Classic:** 40% of Final Compensation plus 2.5% years of service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation) If under 55 years old, subtract 0.5% for every year under age 55. For those who entered the System on 9/01/98 or later, the calculation is as follows: 20% of Final Compensation for up to 6 year of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of service(Maximum 75% of Final Compensation)		2% x Years of Federated City Service x Final Compensation. (Minimum of 20% and maximum of 70.0% of Final Compensation)	
Reciprocity				
Reciprocity	As of December 9, 1994, the City of San José Federated City Employees' Retirement System adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between this retirement system and CalPERS or certain other public agency retirement systems that also have reciprocal agreements with CalPERS. Final eligibility for reciprocity is determined at the time of retirement.			
Cost-of-Living Adjustments (COLA)				
Cost-of-Living adjustments	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each April. There is no prorating of COLA.		Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the lesser of the increase in the Consumer Price Index (San José-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), or a back loaded 2.0% COLA per fiscal year. The back loaded COLA shall be calculated as follows: i. Service at retirement of 1-10 years: 1.25% per year ii. Service at retirement of 1-10 years and hired before June 16, 2017: 1.5% iii. Service at retirement of 11-20 years: 1.5% per year iv. Service at retirement of 21-25 years: 1.75% per year v. Service at retirement of 26 years and above: 2.0% per year COLAs are applied annually on April 1st. The first COLA will be prorated based on the number of months retired prior to April 1st. Partial months are not included in the proration.	

(1) Federated Tier 1 applies to employees hired on or before September 29, 2012.

(2) Employees with "Classic" membership from a CalPERS or reciprocal agency hired by the City of San José, on or after June 18, 2017. A CalPERS "Classic" member is a member who previously worked for a CalPERS or other reciprocal agency and meets the following criteria: 1. First established CalPERS membership or membership in a CalPERS reciprocal agency prior to January 1, 2013, 2. AND is hired by the City of San José after a break in service of less than six months 3. AND did not have concurrent (overlapping) service with the other agency. City of San José Reciprocity Election Form must be submitted within thirty (30) days of the first day of employment with the City. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan.

(3) Tier 2A applies to employees hired between September 30, 2012 and September 27, 2013.

(4) Tier 2B are employees who were newly hired on or after September 27, 2013.

(c) Contributions

This subsection provides information related to contributions paid by the WWTS for pension benefits provided by the FCERS.

The City's and the participating employees' contributions to the Defined Benefit Pension Plan are based upon an actuarially determined percentage of each employee's pensionable and earnable salary to arrive at an actuarially determined contribution ("ADC") sufficient to provide adequate assets to pay benefits when due. The contribution requirements are established by City Charter Articles XV and XV-A, and Title 3 of the San José Municipal Code.

The contribution rates for the period July 1, 2023, through June 30, 2024, were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 2022. The WWTS's contributions paid during the year ended June 30, 2024 were $27.4 million. The contribution rates in effect and the amounts contributed to the pension plan for the year ended June 30, 2024, are as follows:

	City			Participants (2)	
Defined Benefit Pension Plan	**Tier 1**	**Minimum Dollar Amount (3)**	**Tier 2**	**Tier 1**	**Tier 2**
Actuarial Rate:					
06/23/24-06/30/24	22.81%		8.73%	6.61%	8.49%
07/01/23-06/22/24 (1)	20.16%	$ 168,762	8.01%	7.34%	8.01%

(1) The actual contribution rates paid by the City for year ended June 30, 2024 differed for Tier 1 due to the City funding the actuarially determined contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

(2) Under Measure F, certain Tier 2 members who had previous Tier 1 service or prior service with a reciprocal employer were reclassified to Tier 1. Ordinance No. 30183, which became effective January 4, 2019, amended the Municipal Code to reflect these changes. Reclassified Tier 1 members paid an additional 3.00% in contributions for fiscal year ended June 30, 2024. Classic Tier 1 members paid an additional 1.02% in contributions for year ended June 30, 2024.

(3) Contributions are structured as a normal cost, plus a payment on the Unfunded Actuarial Liability (UAL). Tier 1 City contributions are administered as a normal cost contribution rate based on payroll plus a dollar amount payment on the UAL.

(d) Net Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension

As of June 30, 2024, the WWTS reported $210.4 million of net pension liability ("NPL") for its proportionate share of the City's NPL. The WWTS portion of the NPL was based on the WWTS's share of its contributions to the FCERS relative to the total City's contributions to the FCERS. The NPL of the FCERS was measured as of June 30, 2023, and the total pension liability (TPL) for the FCERS used to calculate the NPL was determined by the actuarial valuation for the FCERS as of June 30, 2022, and rolled forward to June 30, 2023, using standard update procedures by the actuary. In summary, the WWTS proportionate share of the City's NPL at June 30, 2024, is 10.65%, a decrease of 0.01% from 10.66% at June 30, 2023.

The discount rate used to measure the total pension liability was 6.625% for the valuation dated June 30, 2022. It is assumed FCERS members' contributions and City's contributions will be made based on the actuarially determined rates based on the funding policy of the FCERS Board. Based on those assumptions, the FCERS' fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the WWTS proportionate share of the net pension liability, calculated using the discount rate of (6.625%) in effect as of the measurement date, as well as what the proportionate share of the net pension liability would be if it was calculated using discount rates that are one percentage point lower (5.625%) or one percentage point higher (7.625%) than the rate used for the FCERS plan (in thousands):

FCERS sensitivity analysis	1% Decrease (5.625%)	Measurement Date Discount Rate (6.625%)	1% Increase (7.625%)
Proportionate share of net pension liability	$ 280,866	$ 210,417	$ 152,818

Pension Expense and Deferrals

For the year ended June 30, 2024, the WWTS recognized a pension expense of $24.1 million and reported deferred outflows and inflows of resources related to pension from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 27,358	$ -
Differences between expected and actual experience	9,712	-
Changes in assumptions	1,915	-
Net difference between projected and actual earnings on pension plan investments	-	3,758
	$ 38,985	$ 3,758

As of June 30, 2024, the WWTS reported $27.4 million as deferred outflows of resources related to contributions subsequent to the measurement date for the FCERS, which will be recognized as a reduction of the net pension liability in the year ending June 30, 2025. Other amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense, as shown in the tables above.

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows (in thousands):

Year Ending June 30:	Deferred Outflows/ (Inflows) of Resources
2025	$ 1,285
2026	(2,793)
2027	10,526
2028	(1,149)
	$ 7,869

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

One fifth of the net earnings is recognized in the first year when the gain or loss occurred, for the difference between projected and actual earnings on pension plan investments. The other deferred amounts are amortized over the expected average remaining service lifetime. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pension and are to be recognized in future pension expense.

The recognition period differs, depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 years
All other amounts	Expected average remaining service lifetime (5.0 years at June 30, 2023 measurement date)

Long-term Expected Rate of Return on Plan Investments

The assumption for the long-term expected rate of return on the FCERS investments of 6.625% for the valuation date at June 30, 2022, was selected by estimating the median nominal rates of return based on long-term capital market assumptions adopted by the FCERS Board, including nominal expected rates of return for each of the asset classes, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the returns.

The FCERS' Defined Benefit Pension Plan investment asset allocation is as follows:

	FCERS	
	Target Asset Allocation	**Long-term Expected Real Rate of Return**
Public Equity	49.0%	6.5%
Private Equity	8.0%	7.9%
Investment Grade Bonds	6.0%	2.0%
Core Real Estate	5.0%	3.8%
Immunized Cash Flows	5.0%	0.3%
Venture/ Growth Capital	4.0%	8.8%
Growth Real Estate	3.0%	6.0%
Emerging Market Bonds	3.0%	3.5%
Private Debt	3.0%	6.2%
Market Neutral Strategies	3.0%	3.4%
Private Real Assets	3.0%	6.4%
Long-term Government Bonds	2.0%	2.3%
Treasury Inflation-protected Securities	2.0%	1.9%
High Yield Bonds	2.0%	4.6%
Cash and Cash Equivalents	N/A	0.3%

(e) Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used to compute the total pension liability (asset) as of the measurement date June 30, 2023, are from the actuarial valuation report with a valuation date of June 30, 2022, and rolled forward to June 30, 2023, using standard update procedures by the actuary for the plan.

Description	FCERS Method/Assumption
Measurement date	June 30, 2023
Valuation date	June 30, 2022
Inflation rate	2.5%
Discount rate	6.625% per annum (net of investment expenses) The Board expects a long-term rate of return of 7.2% based on Meketa's 2021 20-year capital market assumptions and the Retirement System's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate.
Post-retirement mortality	
Healthy retirees:	0.995 for males and 0.960 for females, times the 2010 Public General Mortality Table (PubG-2010)
Healthy non-annuitant:	0.992 for males, and 1.084 for females, times the 2010 Public General Mortality Table (PubG-2010) for healthy employees
Disabled retirees:	1.051 for males and 0.991 for females, times the CalPERS 2009 Ordinary Disability Mortality Table
Rates of service retirement, withdrawal, death, disability retirements	Based on current experience
Salary increases	
Wage Inflation	The base wage inflation assumption of 3.00%
Merit Increase	Merit/longevity increase based on years of service ranging from 3.75% at hire to 0.10% for members with 15 or more years of service
Cost-of-Living Adjustment	Tier 1 – 3.0% per year Tier 2 – 1.25% to 2.0% depending on years of service

Payable to the Pension Plan

As of June 30, 2024, the WWTS has no outstanding contributions payable to the pension plan.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

(a) General Information

In addition to the FCERS Defined Benefit Pension Plan, the City also sponsors and administers a single employer FCERS Postemployment Healthcare Plan, which includes an Internal Revenue Code ("IRC") 115 Trust. The Postemployment Healthcare Plan covers eligible full-time and certain part-time employees in the Regional Wastewater Facility and are accounted for in the Pension Trust Funds of the City.

Generally, the defined benefit Postemployment Healthcare Plan provides medical and dental benefits to eligible retirees and their beneficiaries. Benefits are 100% of the premium cost for the lowest priced medical insurance plan available to an active City employee, and 100% of the premium cost for a dental insurance plan available to an active City employee.

Per the terms of the framework discussed in the Note 7, the City established a VEBA for retiree healthcare for the members of the FCERS in Fiscal Year (FY) 2018. The City does not make contributions into the VEBA and the VEBA is not subject to the jurisdiction of the FCERS Board.

The Internal Revenue Service approved allowing eligible employees who are rehired by the City during calendar years 2018 through 2022 to opt into the applicable VEBA and transfer the retiree healthcare contributions from the Postemployment Healthcare Plan to their individual VEBA accounts.

The City issues a publicly available financial report that may be obtained from the Office of Retirement Services, 1737 North First Street, Suite 600, San Jose, CA 95112, or at https://www.sjretirement.com.

(b) Contributions

Contribution amounts to the Postemployment Healthcare Plan for both the City and the participating members are based upon agreements between the City and the bargaining units. With the implementation of Measure F, ADC was calculated beginning with the year ended June 30, 2019.

On June 24, 2008, the City Council adopted Ordinance No. 28332 amending Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for Postemployment healthcare benefits to the FCERS.

Subsequently, in October 2014, the Board of Administration of the FCERS approved implementing an incremental reduction approach to determining the "actuarial equivalence" for the City's prefunding of its contribution when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach was undertaken to ensure that as business expansions and/or market valuations mature and exceed historic norms, FCERS reduce the City's incentive to prefund its contributions when market valuations and /or economic expansions are beyond historic norms. The incremental reduction to be applied to the discount rate to the City's prefunding of its contribution is 15% per year, up to a maximum of 45%. In March 2022, the Board of Administration for FCERS approved a modification to the incremental reduction approach that added market valuations as an additional criterion for triggering a reduction in the prefunding discount rate.

The FCERS Board on February 15, 2018, approved a contribution policy for the Postemployment Healthcare Plan that sets the City's contribution as a flat dollar amount.

(c) Funding Policy

Historically, member and City contributions to the Postemployment Healthcare Plan were negotiated through collective bargaining and were not actuarially determined. Until the City entered into agreements with various bargaining groups in 2009 and prior to the implementation of Measure F, contributions for the health and dental benefits for both the City and the participating employees of the Postemployment Healthcare Plan were based upon an actuarially determined percentage of employees' base salary sufficient to provide adequate assets to pay benefits when due over the next 15 years for FCERS. From 2009 until the implementation of Measure F, the City had been in the process of phasing in payment of the Actuarially Required Contribution ("ARC") for the retiree health and dental benefits provided by Postemployment Healthcare Plan as calculated pursuant to GASB Statement No. 43 and GASB Statement No. 45 then in effect. However, the contribution rates for the City and members of the Postemployment Healthcare Plan were capped before the full ARC was reached.

The annual contribution costs for the Postemployment Healthcare Plan benefits are allocated to both the City and the active employee members. Contributions to the Postemployment Healthcare Plan for both the City and the participating members are based upon agreements between the City and the bargaining units. With the implementation of Measure F, member contributions are fixed as a percentage of pay and the City's contribution toward the explicit subsidy (premium subsidy) is an ADC determined by the Postemployment Healthcare Plan. The ADC for the Postemployment Healthcare Plan is the normal cost plus the amortization payment on the unfunded actuarial liability, less expected member contributions. The City has an option to limit its ADC for the Postemployment Healthcare Plan to a fixed percentage of the payroll of all active members of the pension plan. The ADC for the Postemployment Healthcare Plan is calculated beginning with FY 2019.

The City will pay the implicit subsidy on a pay-as-you go basis as part of active health premiums. An implicit subsidy for retiree health benefits exists because the medical experience for retirees under age 65 are pooled with the experience for active employees, thereby resulting in a lowering of the premium paid for retirees under age 65. The implicit subsidy is included in the actuarial valuation of the Postemployment Healthcare Plan. The implicit subsidy is shown as both a contribution and payment from the Postemployment Healthcare Plan. However, the implicit subsidy is not actually contributed to or paid from the Postemployment Healthcare Plan. Rather, it is paid directly by the City on a pay-as-you-go basis as a part of active member health plan premiums. The actuary for the Postemployment Healthcare Plan separately calculates the total unfunded actuarial liability being the aggregate unfunded actuarial liability for both implicit and explicit subsidies, and the unfunded actuarial liability for only the explicit subsidy. The unfunded actuarial liability for the explicit subsidy is used to calculate the City's ADC to the Postemployment Healthcare Plan. As of March 25, 2018, members remaining in the FCERS Postemployment Healthcare Plan contribute 7.5% of pay.

The contributions to the FCERS Postemployment Healthcare Plan for the WWTS and the participating employees for the year ended June 30, 2024, are shown below:

	City's Contribution	Employees' Contribution
	Tier 1 and Tier 2	Tier 1 and Tier 2
Actuarial Rate:		
Postemployment Healthcare Plan:		
07/01/2023 - 06/30/2024	$19,095,000 *	7.50%

* In February 2018, the Board approved the contribution policy that sets the City healthcare contributions as a flat dollar amount, beginning with fiscal year 2019. WWTS paid contributions of $3,637,000 during the year ended June 30, 2024.

(d) *Net OPEB Liability*

The WWTS's reported $44.6 million of net OPEB liability for the Postemployment Healthcare Plan. It is measured as the total OPEB liability, less the plan fiduciary net position as of the June 30, 2023, measurement date. The WWTS's net OPEB liability as of June 30, 2024, for the FCERS Postemployment Healthcare Plan is measured as of June 30, 2023, using an annual actuarial valuation as of June 30, 2022, and rolled forward to June 30, 2023, using standard update procedures by the actuary for the plan. In summary, the WWTS proportionate share of the City's net OPEB liability at June 30, 2024, is 15.35%, an increase of 0.13% from 15.22% at June 30, 2023.

Description:	
Measurement Date	June 30, 2023
Valuation Date	June 30, 2022
Actuarial Cost Method:	Entry Age Normal, level of percentage of pay
Actuarial Assumptions:	
Discount Rate	6.00% per year. The Board expects a long-term rate of return of 6.3% based on Meketa's 20-year capital market assumptions and the Retirement System's current investment policy
Inflation Rate	2.50%
Merit Increase	Merit component added based on an individual's years of service ranging from 3.75% at hire to 0.10%
Wage Inflation Rate	3.00%
Rate of Mortality*	Mortality is projected on a generational basis using the MP-2021 scale
Pre-Retirement Turnover**	Please see below table
Healthcare Trend Rate - Medical	The valuation assumes that future medical inflation will be at a rate of 7.16% to 3.94% per annum graded down over a 51-year period for medical pre-age 65 and 4.27% to 3.94% per annum for medical post-age 65. For fiscal year beginning 2023, actual calendar year 2023 premiums are combined with a trend assumption for calendar year 2024, actual premiums are used.
Healthcare Trend Rate - Dental	Dental inflation is assumed to be 3.5%

* Actuarial Methods and Assumptions – FCERS Mortality Rates

Category	Male	Female
Healthy Annuitant	0.995 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees	0.960 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees
Healthy Non-Annuitant	0.992 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees	1.084 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table	0.991 times the CalPERS 2009 Ordinary Disability Mortality Table

Samples of Rates of Termination are shown in the following Table:

Rate of Termination	
Year	Percent
0	15.00%
1	12.75%
2	11.75%
3	10.75%
4	9.75%
5	8.75%
6	7.75%
7	6.50%
8	5.50%
9	4.75%
10	4.25%
11	4.00%
12	3.75%
13	3.50%
14	3.25%
15+	3.25%

Terminations do not apply once a member is eligible for retirement.

Long-term Expected Rate of Return on Plan Investments

The assumption for the long-term expected rate of return on the OPEB plan investments of 6.0% for the valuation year ended June 30, 2022, and rolled forward to June 30, 2023, was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the FCERS Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return.

Best estimates of geometric real rates of return for each major asset class included in the FCERS's target asset allocation as of the June 30, 2023 measurement date is summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	58.0%	6.5%
Investment grade bonds	14.0%	2.0%
Core real estate	12.0%	3.8%
Short-term Investment grade bonds	6.0%	0.9%
Commodities	5.0%	3.0%
Long-term Investment grade bonds	5.0%	2.3%

Discount Rate for FCERS

The discount rate used to measure the total OPEB liability was 6.0% for the measurement year ended June 30, 2023, and is based on the long-term expected rate of return on investments. It is assumed that the FCERS member contributions remain fixed at 7.5% of pay for employees eligible to participate in the Postemployment Healthcare Plan and the City contributes the actuarially determined contribution toward the explicit subsidy up to a maximum of 14% of the total payroll. In addition, the City pays the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the FCERS' fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the OPEB plan investments for the FCERS was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in Discount Rate

The following presents the WWTS's proportionate share of the City's net OPEB liability for the FCERS, as well as what the WWTS's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the measurement date rate (in thousands).

FCERS sensitivity analysis	1% Decrease (5.00%)	Measurement Date Discount Rate (6.00%)	1% Increase (7.00%)
Proportionate share of net OPEB liability	$ 58,852	$ 44,599	$ 33,000

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

The following presents the WWTS's proportionate share of the City's net OPEB liability for the FCERS, as well as what the WWTS's proportionate share of the net OPEB liability would be if it were calculated using a health care cost trend rate that is one percentage point lower or one percentage point higher than the measurement date rate (in thousands).

FCERS sensitivity analysis	1% Decrease	Measurement Date Health Care Cost Trend Rates	1% Increase
Proportionate share of net OPEB liability	$ 31,728	$ 44,599	$ 60,441

Recognition of Deferred Outflows and Deferred Inflows of Resources for FCERS

Gains and losses related to changes in the total OPEB liability and fiduciary net position are recognized in the OPEB expense systematically over time. One fifth of the net earnings is recognized in the first year when the gain or loss occurred for the difference between projected and actual earnings on the OPEB plan investments. The other deferred amounts are amortized over the expected average remaining service lifetime. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to the OPEB and are to be recognized in the future 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
All other amounts	Expected average remaining service lifetime (5.0 Years at June 30, 2023 measurement date)

For the year ended June 30, 2024, the WWTS recognized the OPEB expense of $1.6 million and reported deferred outflows and inflows of resources related to the OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 3,637	$ -
Difference between expected and actual experience	-	5,176
Changes in assumptions	2,047	-
Net difference between projected and actual earnings on pension plan investments	2,150	-
	$ 7,834	$ 5,176

The $3.6 million reported as deferred outflows of resources related to contributions subsequent to the June 30, 2024, measurement date, which will be recognized as a reduction to the net OPEB liability during the year ending June 30, 2025.

Other amounts reported as deferred outflows/(inflows) of resources related to OPEB will be recognized as an expense as follows (in thousands):

Year Ending June 30	Deferred Outflows/(inflows) of Resources
2025	$ (1,313)
2026	(1,808)
2027	2,270
2028	(128)
	$ (979)

NOTE 9 – POLLUTION REMEDIATION

As part of the wastewater treatment process, water is filtered, treated, and the solids are removed. The solid material byproduct, known as biosolids, is placed in lagoons on the Treatment Plant buffer lands, where it is dredged and then dried to reduce water content for eventual off-site disposal.

In the 1960s and 1970s, biosolids from the wastewater were kept on the Treatment Plant buffer lands and stored in lagoons over about 200-acres. These biosolids, estimated to be approximately 750,000 cubic yards, were tested for disposal purposes, and found to contain several metals, classifying them as hazardous waste. The San Francisco Bay Regional Water Quality Control Board ("Water Board") issued an order in August 2019, to require the City to remediate the biosolids. The City received approval from the Water Board to consolidate the biosolids into a smaller footprint (about 25 acres) and cap it with clean soil. The City decided to do the work in two phases. Phase 1 was completed in late 2020 at a cost of about $6.2 million. The remaining biosolids will be moved to the consolidated area in phase 2, which will be implemented over several years. The project is expected to be completed by 2026 or 2027, with the estimated cost for Phase 2 removal is currently at $27.1 million.

NOTE 10 – PAYMENT FOR CITY SERVICES

The City provides certain general support services to the WWTS and charge a pro rata fee. The fees charged to the WWTS for these services for the year ended June 30, 2024 were $23.3 million. Various City departments also charge the WWTS for services rendered on its behalf. These charges totaled to $6.8 million for the year ended June 30, 2024.

NOTE 11 – COMMITMENTS

Treatment Plant Master Plan

In November 2013, the City Council approved the Plant Master Plan (“PMP”), a 30-year planning-level document focused on long-term rehabilitation and modernization of the Treatment Plant. The PMP recommends more than 114 capital improvement projects to be implemented over a 30-year planning period at an estimated investment level of approximately $2.0 billion. On September 24, 2013, the City Council approved a consultant agreement with MWH Americas, Inc. to assist and support the City in developing and implementing this Capital Improvement Plan (“CIP”). On June 2, 2015, a funding strategy was recommended to and approved by the City Council. An update to the strategy was approved by the City Council on January 12, 2016. For the next five years, the City’s portion of the funding for the Treatment Plant Adopted CIP is programmed into the City’s 2025-2029 CIP budget. The City’s FY 2025 approved an operating budget that required an average rate increase of 9.0% for the Sewer Service and Use Charge rate.

Revenues for the 2025-2029 Adopted CIP are derived from several sources: utilization of available resources from the City’s Sewer Service and Use Charge and Sewage Treatment Plant Connection Fee, contributions from the City of Santa Clara and other Tributary Agencies for the treatment of sewage from their respective jurisdictions by the Treatment Plant, interest earnings, Calpine Metcalf Energy Center Facilities repayments, and other debt financing proceeds.

The City is co-owner (with the City of Santa Clara) and the administering agency of the Treatment Plant, which provides wastewater treatment services to five other Tributary Agencies. Contributions from the City of Santa Clara and the Tributary Agencies are made pursuant to agreements with each agency based on the anticipated operation and maintenance, and the capital budget. The Tributary Agencies' proportional contribution for the operation and maintenance cost is based on the amount and characteristics of the sewage discharged into the Treatment Plant. Each Tributary Agency's capital contribution is based on each agency's contractual capacity in the Treatment Plant. The balance of the Treatment Plant budget is shared between the Cities of San José and Santa Clara based on the respective City's assessed property value relative to the total assessed property value, in both jurisdictions. In the 2025-2029 Adopted CIP, contributions from the City of Santa Clara and other agencies are approximately $189.2 million. Currently, a short-term financing has been put into place in the 2025-2029 Adopted CIP of approximately $200.0 million, which will be refunded with long-term bonds during FY 2028.

NOTE 12 – CONTINGENCIES

Tributary Agency Claims

On January 22, 2016, and September 7, 2016, the City, as the administering agency, received claims from the Tributary Agencies alleging a breach of contract and inequity under the Master Agreements. The Treatment Plant Advisory Committee ("TPAC") conducted two administrative hearings, on March 24, 2016 and September 7, 2016, regarding such claims and issued reports as required by the Master Agreements. The Tributary Agencies disagreed with the reports and the parties attempted to mediate such claims but were unable to reach resolution. All parties agreed to waive the hearings before their respective joint legislative bodies.

The Tributary Agencies filed a complaint in the Santa Clara County Superior Court against the City and the City of Santa Clara on March 23, 2018, resulting in a trial in April, May, and June of 2023. The allegations in the case were substantially similar to the claims raised by the Tributary Agencies and heard through the administrative hearing process in 2016. The Tributary Agencies allege the City breached their respective Master Agreements by, among other allegations, the City charging them for capital and operating expenditures that the Tributary Agencies allege are not authorized under the Master Agreements and, the Tributary Agencies assert, are beyond the requirements to operate the Treatment Plant. The Tributary Agencies also allege that the City has improperly concealed how the funds paid by the Tributary Agencies for the Treatment Plant capacity are used. They also allege the City breached the implied covenant of good faith and fair dealing and violated certain California Constitutional provisions limiting local agencies' imposition of property related fees, charges, and taxes. The Tributary Agencies further allege their payments resulted in unjust enrichment to the City and the City of Santa Clara, and that the court should provide declaratory relief in accordance with their allegations.

The City and the City of Santa Clara brought pre-trial motions that resolved in the defendants' favor the Tributary Agencies' claims based on California Constitutional provisions in the defendants' favor. The Tributary Agencies' remaining claims for breach of contract and breach of the implied covenant of good faith and fair dealing were tried to a jury. The Tributary Agencies sought approximately $100.0 million in damages. The jury rejected almost all the Tributary Agencies' claims, finding only that the City violated the Master Agreements in the way it allocated certain capital costs, but awarding zero damages.

The court then decided in favor of the City and the City of Santa Clara on the Tributary Agencies' claims for unjust enrichment and declaratory relief. The court entered judgment in the Cities' favor and awarded certain costs of litigation.

West Valley Sanitation District and Burbank Sanitary District, but not the other Tributary Agencies, have appealed the judgment. The Tributary Agencies appeal will identify the specific grounds for their appeal once briefing commences.

The Tributary Agencies have fully paid their portion of the capital cost for the projects to rehabilitate the Treatment Plant to date. The City cannot predict the outcome or the timeline for resolution of this litigation.

CITY OF SAN JOSE
WASTEWATER TREATMENT SYSTEM
(An Activity of the City of San José)
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2024

Schedule of the Proportionate Share of the Net Pension Liability
(Dollar Amounts in Thousands)

	2024	2023
Proportion of the collective net pension liability	10.65%	10.66%
Proportionate share of the collective net pension liability	$ 210,417	$ 211,190
Covered payroll	$ 49,989	$ 54,868
Proportionate share of collective net pension liability as percentage of covered payroll	420.92%	384.90%
Plan fiduciary net position as a percentage of the total pension liability	61.68%	59.75%

Schedule of Employer Contributions - Defined Benefit Pension Plan
(Dollar Amounts in Thousands)

	2024	2023
Actuarially determined contribution	$ 28,753	$ 25,803
Contribution in relation to the actuarially determined contributions	28,753	25,803
Difference between actuarially determined contributions and contributions made	$ -	$ -
Covered payroll	$ 54,402	$ 49,989
Contribution as a percentage of covered payroll	52.85%	51.62%

NOTE: The schedules present information to illustrate changes in the WWTS's proportionate share of the net pension liability and contributions over a 10-year period when the information is available. However, until a 10-year trend is compiled, governments should present information for those years for which information is available. Fiscal Year 2023 was the first year that the WWTS issued a stand-alone annual financial report. Prior years' information was not available.

* 2023 information were updated.

Note to Required Supplementary Information Schedules – Pension Plan

As a participant in a cost-sharing arrangement with the City, the WWTS is required to recognize a liability for its proportionate share of the City's collective net pension liability. the WWTS recognizes pension expense and reports deferred outflows of resources and deferred inflows of resources related to pension for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

Fiscal year	June 30, 2024	June 30, 2023
Valuation date	**June 30, 2022**	**June 30, 2021**
Actuarial cost method	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market
Discount rate	6.625%	6.625%
Salary increases	3.00% plus merit component based on years of service	3.00% plus merit component based on years of service
Amortization growth rate	2.75%	2.75%
Amortization method	Unfunded actuarial liability as of June 30, 2009, was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017, is amortized over a 10-year period. Tier 2 actuarial gains and losses, assumption changes, and plan changes are amortized over 10-year periods.	Unfunded actuarial liability as of June 30, 2009, was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017, is amortized over a 10-year period. Tier 2 actuarial gains and losses, assumption changes, and plan changes are amortized over 10-year periods.
Mortality	Adjusted 2010 Public General (healthy) and 2009 CalPERS (disabled) mortality tables projected on a generational basis with the SOA MP-2021 projection scale.	Adjusted 2010 Public General (healthy) and 2009 CalPERS (disabled) mortality tables projected on a generational basis with the SOA MP-2021 projection scale.

CITY OF SAN JOSE
WASTEWATER TREATMENT SYSTEM
(An Activity of the City of San José)
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2024

Schedule of the Proportionate Share of the Net OPEB Liability
(Dollar Amounts in Thousands)

	2024	2023
Proportion of the collective net OPEB liability	15.35%	15.22%
Proportionate share of the collective net OPEB liability	$ 44,599	$ 50,102
Covered payroll	$ 49,989	$ 54,868
Proportionate share of collective net OPEB liability as percentage of covered payroll	89.22%	91.31%
Plan fiduciary net position as a percentage of the total OPEB liability	56.67%	56.32%

Schedule of Employer Contributions - Postemployment Healthcare Plan
(Dollar Amounts in Thousands)

	2024	2023
Actuarially determined contributions	$ 3,636	$ 3,419
Contribution in relation to the actuarially determined contributions	3,636	3,419
Difference between actuarially determined contributions and contributions made	$ -	$ -
Covered payroll	$ 54,402	$ 49,989
Contribution as a percentage of covered payroll	6.68%	6.84%

NOTE: The schedules present information to illustrate changes in the WWTS's proportionate share of the net OPEB liability and contributions over a 10-year period when the information is available. However, until a 10-year trend is compiled, governments should present information for those years for which information is available. Fiscal Year 2023 was the first year that the WWTS issued a stand-alone annual financial report. Prior years' information was not available.

* 2023 information were updated.

Note to Required Supplementary Information Schedules – OPEB Plan

As a participant in a cost-sharing arrangement with the City, the WWTS is required to recognize a liability for its proportionate share of the City's collective net OPEB liability. The WWTS recognizes the OPEB expense and reports the deferred outflows of resources and the deferred inflows of resources related to the OPEB for its proportionate shares of the collective OPEB expense and the collective deferred outflows of resources and the deferred inflows of resources related to the OPEB. The schedules present information to illustrate changes in the WWTS's proportionate share of the net OPEB liability and contributions over a 10-year period when the information is available. However, until a 10-year trend is compiled, governments should present information for those years for which information is available.

Methods and assumption used to determine contributions:

Fiscal Year	**6/30/2024**	**6/30/2023**
Valuation Date	**6/30/2022**	**6/30/2021**
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year
Actuarial Cost Method	Individual entry age	Individual entry age
Amortization Method/Period	20-year layered amortization as a level dollar amount with 3-year phase-in and phase-out	20-year layered amortization as a level dollar amount with 3-year phase-in and phase-out
Asset Valuation Method	Fair value of assets	Fair value of assets
Amortization growth rate	0.00%	0.00%
Discount rate	6.00%	6.00%
Ultimate rate of medical inflation	3.94%	3.78%
Salary increases	3.00% plus merit component based on years of service	3.00% plus merit component based on years of service
Mortality	Adjusted 2010 Public General Mortality tables for healthy members and adjusted 2009 CalPERS mortality tables for disabled members projected on a generational basis with the SOA MP-2021 projection scale	Adjusted 2010 Public General Mortality tables for healthy members and adjusted 2009 CalPERS mortality tables for disabled members projected on a generational basis with the SOA MP-2021 projection scale

A complete description of the methods and assumptions used to determine contributions for the year ended June 30, 2024 and 2023, can be found in the June 30, 2022 and 2021 actuarial valuation reports, respectively.

CITY OF SAN JOSE
WASTEWATER TREATMENT SYSTEM
(An Activity of the City of San José)
Other Information (Unaudited)
For the Year Ended June 30, 2024

OTHER INFORMATION

Reconciliation of Net Position of the WWTS to the City's Annual Comprehensive Financial Report (ACFR)

WWTS	**2024**
Assets	$ 1,855,056
Deferred Outflows of Resources	54,737
Liabilities	661,699
Deferred Inflows of Resources	16,852
Net Position, WWTS	1,231,242
Net Positon, South Bay Water Recycling Program and System ("SBWR")	17,314
Net Positon, Wastewater Treatment System, as reported in the ACFR	$ 1,248,556

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable City Council of the City of San José
City of San José, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Wastewater Treatment System (WWTS), an activity of the City of San José, California (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the WWTS's financial statements, and have issued our report thereon dated November 15, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over the WWTS's financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 15, 2024