Hercules Wastewater Fund

(An Enterprise Fund of the City of Hercules, California)

Hercules, California

Independent Auditors' Report and Basic Financial Statements

For the Year Ended June 30, 2023

THE PUN GROUP
ACCOUNTANTS & ADVISORS

Hercules Wastewater Fund
(An Enterprise Fund of the City of Hercules, California)
Basic Financial Statements
For the Year Ended June 30, 2023

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THE PUN GROUP
ACCOUNTANTS & ADVISORS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Hercules
Hercules, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Hercules Wastewater Fund (the "Fund"), an enterprise fund of the City of Hercules, California (the "City"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and the Fund 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 described in Note 1 to the basic financial statements, these financial statements present only the Fund and do not purport to and do not present fairly the financial position of the City as of June 30, 2023, 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

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

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

Auditors' 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 auditors' report that includes our opinions. 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedules of Proportionate Share of the Plan's Net Pension Liability, the Schedules of Contributions to the Pension Plan, the Schedule of Proportionate Share of the Plan's Net Other Postemployment Benefits Liability (Asset) - PEHMCA, the Schedules of Contributions to the OPEB Plan – PEHMCA, the Schedule of Proportionate Share of the Plan's Net OPEB Liability (Asset) – SOMAR, and the Schedule of Contributions to the OPEB Plan - SOMAR as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2024 on our consideration of the City's internal control over the Fund'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 Fund'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 Fund's financial reporting and compliance.

The Pun Group, LLP

Santa Ana, California
February 22, 2024

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

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
of the City of Hercules
Hercules, 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 Hercules Wastewater Fund (the "Fund"), an enterprise fund of the City of Hercules, California (the "City"), as of and for the year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated February 22, 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 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.

To the Honorable Mayor and Members of the City Council
of the City of Hercules
Hercules, California
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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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.

The Pun Group, LLP

Santa Ana, California
February 22, 2024

BASIC FINANCIAL STATEMENTS

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Hercules Wastewater Fund
Statement of Net Position
June 30, 2023

ASSETS	
Current assets:	
Cash and investments	$ 18,830,203
Cash and investments with fiscal agent	8,327,888
Total current assets	27,158,091
Noncurrent assets:	
Net OPEB asset (PEHMCA)	12,132
Capital assets:	
Nondepreciable	3,456,514
Depreciable, net	36,922,843
Total noncurrent assets	40,391,489
Total assets	67,549,580
DEFERRED OUTFLOWS OF RESOURCES	
Pension-related deferred outflows of resources	445,145
OPEB-related deferred outflows of resources (PEHMCA)	33,622
OPEB-related deferred outflows of resources (SOMAR)	35,838
Total deferred outflows of resources	514,605
LIABILITIES	
Current liabilities:	
Accounts payable	2,026,678
Salaries and benefits payable	8,776
Accrued interest payable	16,055
Long-term debt - due within one year	1,557,797
Total current liabilities	3,609,306
Noncurrent liabilities:	
Long-term debt - due in more than one year	27,599,075
Net pension liability	1,092,885
Net OPEB liability (SOMAR)	100,875
Total noncurrent liabilities	28,792,835
Total liabilities	32,402,141
DEFERRED INFLOWS OF RESOURCES	
Pension-related deferred outflows of resources	136,612
OPEB-related deferred outflows of resources (PEHMCA)	92,420
OPEB-related deferred outflows of resources (SOMAR)	31,658
Total deferred inflows of resources	260,690
NET POSITION	
Net investment in capital assets	
Restricted for debt services	19,602,539
Unrestricted	15,798,815
Total net position	$ 35,401,354

See accompanying Notes to the Basic Financial Statements.

Hercules Wastewater Fund
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023

OPERATING REVENUES:		
Charges for services	$	5,922,758
Total operating revenues		5,922,758
OPERATING EXPENSES:		
Salaries and benefits		821,479
Services and supplies		2,652,510
Depreciation		990,241
Total operating expenses		4,464,230
Operating income		1,458,528
NONOPERATING REVENUES (EXPENSES):		
Interest income		294,199
Interest (expense)		(621,774)
Total nonoperating revenues (expenses), net		(327,575)
CHANGE IN NET POSITION		1,130,953
NET POSITION:		
Beginning of year		34,270,401
End of year	$	35,401,354

See accompanying Notes to the Basic Financial Statements.

Hercules Wastewater Fund
Statement of Cash Flows
For the Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from customers	$ 5,922,758
Cash paid to suppliers for goods and services	(971,308)
Cash paid to employees for services	(750,940)
Net cash provided by operating activities	4,200,510
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Payments related to the acquisition of capital assets	(2,283,619)
Principal repayments related to capital purposes	(2,604,812)
Interest repayments related to capital purposes	(968,747)
Net cash (used in) capital and related financing activities	(5,857,178)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earnings	294,199
Net cash provided by investing activities	294,199
NET CHANGES IN CASH AND CASH EQUIVALENTS	(1,362,469)
CASH AND CASH EQUIVALENTS:	
Beginning of year	28,520,560
End of year	$ 27,158,091
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION:	
Cash and investments	$ 18,830,203
Cash and investments with fiscal agent	8,327,888
Total cash and cash equivalents	$ 27,158,091
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 1,458,528
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	990,241
(Increase) decrease in assets and deferred outflows	
Pensions-related deferred outflows	(283,060)
OPEB-related deferred outflows	(30,141)
Increase (decrease) in liabilities and deferred inflows	
Accounts payable	1,681,202
Salaries and benefits payable	(23,785)
Net pension liability	728,877
Net OPEB liability	17,658
Pensions-related deferred inflows	(355,956)
OPEB-related deferred inflows	16,529
Compensated absences	417
Total adjustments	2,741,982
Net cash provided by operating activities	$ 4,200,510

See accompanying Notes to the Basic Financial Statements.

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Note 1 – Summary of Significant Accounting Policies

The financial statements of the Hercules Wastewater Fund ("Fund"), an enterprise fund of the City of Hercules, California (the "City"), have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") as applied to governmental agencies. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the City's significant policies relating to the Fund:

A. Reporting Entities

The Hercules Wastewater Fund is an enterprise fund of the City's financial statements. This Fund accounts for wastewater treatment to the cities of Hercules and Pinole and for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity which provides services on a user charge basis to residences and businesses.

These financial statements present only the Wastewater Fund and do not purport to and do not present fairly the financial position of the City as of June 30, 2023, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with U.S. GAAP.

B. Measurement Focus and Basis of Accounting

Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

Proprietary funds are accounted for using the *"economic resources"* measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Operating revenues are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

C. Cash and Investments

All cash and investments of the Fund are held in the City's investment pool. These cash pools have the general characteristics of a demand deposit account, therefore, all cash and investments in the Fund are considered cash and cash equivalents for statement of cash flows purposes.

Investments are stated at fair value (quoted market price or best available estimate thereof).

D. Cash and Investments with Fiscal Agents

Cash and investments are held by fiscal agents for the redemption of bonded debt and maintaining required reserves.

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Revenues

Wastewater revenues (wastewater disposal services) are recorded as billed to customers on a cyclical basis. All wastewater customers are billed annually by the Contra Costa County Treasurer-Tax Collector Office.

F. Capital Assets

Capital assets are recorded at historical cost or estimated historical if purchased or constructed. Donated capital assets are valued at their estimated acquisition value on the date donated. City policy has set the capitalization threshold for reporting capital assets with an initial, individual cost of more than $2,500 for general capital assets and $5,000 for infrastructure capital assets, and an estimated useful life of one year or more.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives used for depreciation purposes are as follows:

Wastewater structure	30 Years
Machinery and equipment	5-20 Years
Infrastructure	15-50 Years

G. Accounts Payable

Accounts payable consists of general administration costs incurred and construction services performed during the fiscal year, but paid after the fiscal year.

H. Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

I. Compensated Absences

City employees have vested interest in varying levels of vacation, sick leave and compensatory time based on their length of employment. It is the policy of the City to pay all accumulated vacation pay and all or a portion of sick pay when an employee retires or terminates. Compensated absences are expensed in the period they are earned, and the unpaid liability is recorded as a long-term liability.

Note 1 – Summary of Significant Accounting Policies (Continued)

J. Pensions

For purposes of measuring the aggregate net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 6). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

CalPERS	
Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 - June 30, 2022

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

Pension benefits are expensed to the various funds in the period they are earned, and the unpaid liability is recorded as a long-term liability.

K. Other Postemployment Benefits ("OPEB")

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plans and additions to/deductions from OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the plan (Note 7). For this purpose, the OPEB plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The following timeframes are used for OPEB reporting for PEMHCA and SOMAR:

OPEB - PEMHCA and SOMAR	
Valuation Date	June 30, 2023
Measurement Date	June 30, 2023
Measurement Period	July 1, 2022 - June 30, 2023

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

Note 1 – Summary of Significant Accounting Policies (Continued)

L. Deferred Outflows and Inflows of Resources

The Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent a consumption of net assets that applies to future periods.

Deferred Inflows of Resources represent an acquisition of net assets that applies to future periods.

M. Net Position

Net position is classified as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and related deferred charges on refunding capital debt, reduced by the related debt that are attributable to the acquisition, construction, or improvement of those items, net of unspent debt proceeds.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When expenses are incurred for purposes for which both restricted and unrestricted components of net position are available, the City's policy is to apply the restricted component of net position first, then the unrestricted component of net position as needed.

N. 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.

Note 2 – Cash and Investments

Cash and investments at June 30, 2023 consisted of the following:

Cash and investments pooled with City	$ 18,830,203
Cash and investments with fiscal agents	8,327,888
Total	$ 27,158,091

Note 2 – Cash and Investments (Continued)

A. Cash and Investments Pooled with City

The Fund pools its cash and investments with the City in order to achieve a higher return on investment. Certain funds which are held and invested by independent outside custodians through contractual agreements, are not pooled. Interest earned on investments is allocated using the LAIF factor and average quarterly balances. Required disclosure information regarding investments and other deposit, and related risk disclosures can be found in the City's financial statements. The City's financial statements may be obtained by contacting the City's Finance Department's office at 111 Civic Drive, Hercules, California.

At June 30, 2023, the Fund has deposited $18,830,203 in the City's investment pool. Investments held in the City's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value.

B. Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized by the City's investment policy and the California Government Code. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	$50 Million	$50 Million
U.S. Treasury Obligations	5 Years	None	None
U.S. Government Agency Issues	5 Years	None	None
Insured Deposits with Banks and Savings and Loans	N/A	None	None
Bankers Acceptance (Must be Dollar Denominated)	180 Days	40%	30%
Commercial Paper	270 Days	15%	10%
Negotiable Time Certificates of Deposits	5 Years	30%	$100,000
Nonnegotiable Time Certificates of Deposits	5 Years	30%	$100,000
Federally Issued Time Deposits	5 Years	None	$100,000
Repurchase Agreements	30 Days	None	10%
Reverse Repurchase Agreements	92 Days	20%	None
Medium-Term Notes	5 Years	30%	15%
Money Market Mutual Funds	N/A	20%	10%
Insured or Passbook Savings Accounts	N/A	None	$100,000

*The table is based on state law requirements or investment policy requirements, whichever is more restrictive.

Note 2 – Cash and Investments (Continued)

C. Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the investment policy of the City. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	$50 Million	$50 Million
U.S. Treasury Obligations	30 Years	20%	None
U.S. Government Agency Issues	30 Years	20%	None
Insured Deposits with Banks and Savings and Loans	N/A	None	None
Bankers Acceptance (Must be Dollar Denominated)	6 Months	40%	30%
Commercial Paper	6 Months	15%	10%
Negotiable Time Certificates of Deposits	5 Years	30%	$100,000
Nonnegotiable Time Certificates of Deposits	5 Years	30%	$100,000
Federally Issued Time Deposits	1 Years	20%	None
Repurchase Agreements	30 Days	None	None
Reverse Repurchase Agreements	92 Days	20%	None
Medium-Term Notes	5 Years	30%	15%
Mutual Funds	N/A	20%	None
Money Market Funds	N/A	None	None
Insured or Passbook Savings Accounts	N/A	None	$100,000
Guaranteed Investment Contract	N/A	None	None

D. Fair Value Measurement

At June 30, 2023, the Fund's investment consisted of $18,830,203 pooled with the City and the City invested in the State of California Local Agency Investment fund and $8,327,888 invested in money market mutual funds, which is valued at amortized cost and "uncategorized" under the fair value hierarchy.

E. Risk Disclosures

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Fund manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Note 2 – Cash and Investments (Continued)

E. Risk Disclosures (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the Fund's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Fund's investments by maturity:

Investment Type	Total	Maturity 12 Months or Less
Cash and investments pooled with City	$ 18,830,203	$ 18,830,203
Investments with fiscal agents:		
Money Market Mutual Funds	8,327,888	8,327,888
Total	$ 27,158,091	$ 27,158,091

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

Interest rate risk is the market value fluctuation due to overall changes in the interest rates. It is mitigated by limiting the average maturity of the City's portfolio, not to exceed three years.

As a means of maintaining liquidity and minimizing interest rate risk, the City's investment policy limits are as follows:

Maturity	Percentage of Portfolio
Up to One Year	10% Minimum
One Year to Five Years	60% Maximum
More Than Five Years	30% Maximum

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the City's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Total	Minimum Legal Rating	S&P Rating as of Fiscal Year Ended AAA	Not Rated
Cash and investments pooled with City	$ 18,830,203	N/A	$ -	$ 18,830,203
Investments with fiscal agents:				
Money Market Mutual Funds	8,327,888	N/A	8,327,888	-
Total	$ 27,158,091		$ 8,327,888	$ 18,830,203

Note 2 – Cash and Investments (Continued)

E. Risk Disclosures (Continued)

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Fund has 100% of its cash and investments pooled with the City.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g., broker dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the provision for deposits as disclosed in Note 2A.

Note 3 – Capital Assets

Summary of changes in capital assets for the year ended June 30, 2023, was as follows:

	Balance July 1, 2022	Additions	Reclassification/ Transfers	Balance June 30, 2023
Nondepreciable assets:				
Land	$ 191,700	$ -	$ -	$ 191,700
Constrution in progress	981,195	2,283,619	-	3,264,814
Total nondepreciable assets	1,172,895	2,283,619	-	3,456,514
Depreciable assets:				
Structures and improvements	38,325,271	-	-	38,325,271
Machinery and equipment	250,345	-	-	250,345
Infrastructure	14,945,319	-	-	14,945,319
Subtotal	53,520,935	-	-	53,520,935
Less: accumulated depreciation:				
Structures and improvements	(11,007,031)	(137,358)	-	(11,144,389)
Machinery and equipment	(215,394)	(4,560)	-	(219,954)
Infrastructure	(4,385,426)	(848,323)	-	(5,233,749)
Subtotal	(15,607,851)	(990,241)	-	(16,598,092)
Total depreciable assets, net	37,913,084	(990,241)	-	36,922,843
Total capital assets, net	$ 39,085,979	$ 1,293,378	$ -	$ 40,379,357

Depreciation expense in the amount of $990,241 was charged to the Fund for the year ended June 30, 2023.

Note 4 – Long-Term Debt

Summary of changes in long-term debt for the year ended June 30, 2023, was as follows:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due within One Year	Due in More Than One Year
State Water Resources Construction Loan	$ 23,259,518	$ -	$ (2,249,812)	$ 21,009,706	$ 1,153,672	$ 19,856,034
Wastewater Revenue Bonds, Series 2021A	8,450,000	-	(355,000)	8,095,000	365,000	7,730,000
Compensated Absences	51,749	30,440	(30,023)	52,166	39,125	13,041
Total	$ 31,761,267	$ 30,440	$ (2,634,835)	$ 29,156,872	$ 1,557,797	$ 27,599,075

A. *State Water Resources Construction Loan*

In June 2016, the City entered into an installment sale agreement with the California State Water Resources Control Board in the amount of $26,500,000. The funds are for construction costs for the Pinole-Hercules Wastewater Pollution Control Plant Improvement Project. The interest rate on the loan is 1.7%. The first principal and interest payment are due August 31, 2019, and is contingent on the total drawdowns at project completion. The loan matures on August 31, 2038. The City has drawn down $25,457,695 of the loan principal including construction loan interest as of June 30, 2023. The outstanding balance as of June 30, 2023 was $21,009,706.

The annual debt service requirements to maturity for the State Water Resources Construction Loan as of June 30, 2023 are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	$ 1,153,672	$ 357,165	$ 1,510,837
2025	1,173,285	337,553	1,510,838
2026	1,193,230	317,606	1,510,836
2027	1,213,515	297,322	1,510,837
2028	1,234,145	276,692	1,510,837
2029-2033	6,492,658	1,061,529	7,554,187
2034-2038	7,063,618	490,567	7,554,185
2039	1,485,583	25,255	1,510,838
Total	$ 21,009,706	$ 3,163,689	$ 24,173,395

Note 4 – Long-Term Debt (Continued)

B. Wastewater Revenue Bonds, Series 2021A

In July, 2021, the City issued the Direct Purchase Lease in the amount of $8,450,000 and the proceeds were used to early pay off the 2010 PFA Wastewater Revenue Bonds.

The bonds bear interest at 2.38%. Interest on the bonds is payable semi-annually on February 1 and August 1 in each year, commencing February 1, 2022. Principal payments are due in annual installments ranging from $355,000 to $545,000, commencing August 1, 2022 through August 1, 2040.

In the event of default, the City shall declare the entire principal amount of the unpaid Series 2021 installment payments and accrued inteest thereon to be due and payable immediately in wirting.

The annual debt service requirements to maturity for as of June 30, 2023 are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	$ 365,000	$ 188,318	$ 553,318
2025	375,000	179,512	554,512
2026	385,000	170,468	555,468
2027	395,000	161,186	556,186
2028	400,000	151,725	551,725
2029-2033	2,150,000	609,280	2,759,280
2034-2038	2,425,000	337,544	2,762,544
2039-2041	1,600,000	57,715	1,657,715
Total	$ 8,095,000	$ 1,855,746	$ 9,950,746

C. Compensated Absences

There is no fixed payment schedule for earned but unpaid compensated absences.

Note 5 – Risk Management

The Fund is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Fund participates in the City’s insurance programs to insure against these losses.

General Liability Insurance

Coverage is maintained with the Municipal Pooling Authority (MPA) with coverage limits of $1,000,000 with self-insured retention of $10,000 and $1,000,001 to $29,000,000 covered by California Affiliated Risk Management Authority (CARMA).

Note 5 – Risk Management (Continued)

Workers' Compensation

The City has coverage limits for the following without a deductible:

MPA	$0 to $500,000
PRISM	$500,000 to $50,000,000
Liberty Insurance Corporation	Statutory excess of $50,000,000

Miscellaneous Coverages

The MPA provides additional coverage for the following risks incurred by the City:

Type	Deductibles	Coverage Limits
Auto - Physical Damage:		
Police Vehicles	$ 3,000	$ 250,000
All Other Vehicles	2,000	250,000
All Risk Fire & Property	25,000	1,000,000,000
Cyber Liability	50,000	3,000,000
Pollution Liability	250,000	25,000,000
Crime Coverage	2,500	5,000,000
Boiler and Machinery	5,000	100% of primary $75,000,000; 100% of $25,000,000 excess of $75,000,000

The MPA is governed by a board consisting of representatives from member municipalities. The board controls the operations of the MPA, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board.

The City's deposits with the MPA are in accordance with formulas established by the MPA. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating. Audited financial statements can be obtained from the Municipal Pooling Authority, 1911 San Miguel Drive, #200, Walnut Creek, California 94596.

Note 6 – Public Employee Retirement System

A. General Information About the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by state statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Note 6 – Public Employee Retirement System (Continued)

A. General Information About the Pension Plans (Continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2023, are summarized below:

	Miscellaneous	Miscellaneous Tier 2
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426 - 2.148%	1.0 - 2.5%
Required employee contribution rate	7.0%	6.75%
Required employer contribution rate	10.320%	7.470%

Employees Covered

At June 30, 2022, the measurement date, the following employees were covered by the Plan's provisions:

	Miscellaneous	Miscellaneous PEPRA
Active employees	31	13
Transferred employees	48	13
Separated employees	95	17
Retired employees and beneficiaries	88	1
Total	262	44

Contributions

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

Note 6 – Public Employee Retirement System (Continued)

A. General Information About the Pension Plans (Continued)

Contributions (Continued)

The City contributed $105,146 towards the Fund's share of the Miscellaneous Pension Plan during the year ended June 30, 2023.

B. Net Pension Liability

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2021 valuation was rolled forward to determine the June 30, 2022 total pension liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table[1]	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter.

[1] The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.

Change of Assumption

Effective with the June 30, 2021 valuation date (2022 measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. in determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension and fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

Long-Term Expected Rate of Return

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points. The expected real rates of return by asset class are as follows:

Note 6 – Public Employee Retirement System (Continued)

B. Net Pension Liability (Continued)

Long-term Expected Rate of Return (Continued)

Asset Class[1]	Assumed Asset Allocation	Real Return[1,2]
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-Cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%

[1] An expected inflation of 2.30% was used for this period.

[2] Figures are based on the 2021 Asset Liability Management study.

Discount Rate

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

C. Proportionate Share of Net Pension Liability

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period:

	Plan Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Miscellaneous			
Balance at: 6/30/21 (Valuation date)	$ 2,537,625	$ 2,173,617	$ 364,008
Balance at: 6/30/22 (Measurement date)	4,067,367	2,974,482	1,092,885
Net changes during 2021-2022	$ 1,529,742	$ 800,865	$ 728,877

Note 6 – Public Employee Retirement System (Continued)

C. Proportionate Share of Net Pension Liability (Continued)

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

Measurement date	Fund's Proportion to City's Share Pool
Proportion - June 30, 2021	0.00673%
Proportion - June 30, 2022	0.00946%
Change - Increase/(Decrease)	0.00273%

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

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

	Plan's Net Pension Liability		
	Discount Rate - 1% (5.90%)	Current Discount Rate (6.90%)	Discount Rate + 1% (7.90%)
Miscellaneous	$ 1,647,340	$ 1,092,885	$ 636,706

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Note 6 – Public Employee Retirement System (Continued)

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pension

For the year ended June 30, 2023, the Fund recognized pension expense of $195,007. At June 30, 2023, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contribution made after the measurement date	$ 105,146	$ -
Changes of assumptions	111,989	-
Net difference between projected and actual earnings on pension plan investments	200,188	-
Difference between expected and actual experience	21,947	(14,699)
Employer contributions in excess/(under) proportionate share of contributions	-	(79,134)
Adjustments due to difference in proportions	5,875	(42,779)
Total	$ 445,145	$ (136,612)

$105,146 was reported as deferred outflows of resources related to pensions resulting from Fund's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the measure period ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Period Ended June 30	Miscellaneous Plan
2023	$ 29,133
2024	27,568
2025	24,245
2026	122,441
2027	-
Thereafter	-
Total	$ 203,387

E. Payable to the CalPERS Pension Plans

At June 30, 2023, the Fund had no outstanding amounts owed to the CalPERS pension plans for contributions for the year ended June 30, 2023.

Note 7 – Other Postemployment Benefits ("OPEB")

A. Retiree Healthcare Plan (PEHMCA)

Plan Description and Administration

The City Retiree Healthcare Plan (Plan) is a single-employer benefit healthcare plan administered by the City. The Plan provides healthcare benefits to eligible retirees and their dependents. The Plan does not issue a financial report.

The City has prefunded a portion of its OPEB benefits in a Public Agency Retirement Services (PARS) trust. The PARS Trust is a tax qualified irrevocable trusts, organized under Internal Revenue Code (IRC) Section 115, established to pre-fund OPEB as described in GASB Statement 75. PARS issues annual audited financial statements for each participating agency of the Trust. PARS is considered an agency agent multiple-employer plan, required to provide financial statements and required supplementary information (Schedule of Changes in Fiduciary Net Position by Plan) that are prepared in conformance with GASB statement 75.

These reports may be obtained by writing the plan at the following address: PARS 4350 Von Karman Ave., Suite 100, Newport Beach, CA 92660-2043.

Employees become eligible to retire and receive City-paid healthcare benefits upon attainment of age 50 and 5 years of service. The City contribution towards retiree health benefits is determined under the "Equal Contribution Method" under PEHMCA under which the City's nominal contribution to PEMHCA is the same for active employees and retirees ($149/month for 2022 and 2023).

Proportionate share of the City's postemployment benefits liabilities and related deferred outflows and inflows have been allocated to the Fund.

Contributions

The contributions are based on pay-go for premiums and contributions to the PARS OPEB trust. The pay-go amount is the actual amount of retiree premiums. Total contributions (pay-go and trust contributions) for the year ended June 30, 2023 were $5,879.

Actuarial Assumptions

The net OPEB liability of the Plan was determined using an actuarial valuation as of June 30, 2023 using the following actuarial assumptions:

Actuarial Assumptions:	
Cost Method	Entry age actuarial cost method
Discount Rate	5.15%
Inflation	2.50%
Aggregate payroll increases	2.75%
Expected long-term investment rate of return	5.15%
Mortality, Termination, and Disability	2021 CalPERS Mortality
Healthcare Trend Rate	4%

Note 7 – Other Postemployment Benefits (“OPEB”) (Continued)

A. Retiree Healthcare Plan (PEHMCA) (Continued)

Actuarial Assumptions (Continued)

The mortality assumptions are based on the 2021 CalPERS Mortality for Miscellaneous and Schools Employees table created by CalPERS for the miscellaneous participant type and the 2021 CalPERS Mortality for Safety Employees for the safety participant type . CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

Changes of Assumptions

There were not discount rate changes. However, the demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

Discount Rate

The discount rate used to measure the total Plan’s OPEB liability was 5.15%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the City plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The expected long-term rate of return on OPEB plan investments of 5.15%, gross of expenses, was determined by Highmark Capital Management using a building-block method in which best-estimate ranges of expected future real rates of return, net of inflation, are developed for each major asset class. These ranges are combined to produce the term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	New Strategic Allocation	Long-Term Expected Real Rate of Return
All Domestic Equities	30.00%	7.25%
All Fixed Income	65.00%	4.25%
Short-Term Gov't Fixed	5.00%	3.00%
	100.00%	

Proportionate Share of Net OPEB Liability and OPEB Expense

The following table shows the plan’s proportionate share of the risk pool collective net pension liability (asset) over the measurement period:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at: 6/30/22 (Valuation date)	$ (136,327)	$ (137,090)	$ (763)
Balance at: 6/30/23 (Measurement date)	(130,814)	(142,946)	(12,132)
Net changes during 2022-2023	$ (5,513)	$ 5,856	$ 11,369

Note 7 – Other Postemployment Benefits (“OPEB”) (Continued)

A. Retiree Healthcare Plan (PEHMCA) (Continued)

Proportionate Share of Net OPEB Liability and OPEB Expense (Continued)

The Fund’s proportionate share of the City’s net OPEB liability (asset) for the OPEB plan is measured as the proportionate share of the net OPEB liability (asset). The net OPEB liability (asset) of the OPEB plans is measured as of June 30, 2022, and the total OPEB liability (asset) used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of June 30, 2022 and rolled forward to June 30, 2023 using standard update procedures.

The Fund’s proportion of the net OPEB liability (asset) was based on a projection of the Fund’s long-term share of contributions to the OPEB plans relative to the projected contributions of all participating employers, actuarially determined. The Fund’s proportionate share of the net OPEB liability as of the June 30, 2023 measurement date and June 30, 2022 measurement date was as follows:

	Fund's Proportion to City's Share Pool
Proportion - June 30, 2022	5.35664%
Proportion - June 30, 2023	5.35714%
Change - Increase/(Decrease)	0.00050%

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liability (asset) of the Plan, as well as what the City’s net OPEB liability (asset) would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

Net OPEB Liability (Asset)		
Discount Rate - 1% (4.15%)	Current Discount Rate (5.15%)	Discount Rate + 1% (6.15%)
$ 5,478	$ (12,132)	$ (26,770)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Trend Rate

The following presents the net OPEB liability (asset) of the Plan, as well as what the Plan’s net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that 1% lower or 1% higher than the current healthcare cost trend rate:

Net OPEB Liability (Asset)		
Healthcare Cost Trend Rates 3%	Healthcare Cost Trend Rates 4%	Healthcare Cost Trend Rates 5%
$ (30,493)	$ (12,132)	$ 11,014

Note 7 – Other Postemployment Benefits ("OPEB") (Continued)

A. Retiree Healthcare Plan (PEHMCA) (Continued)

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

For the year ended June 30, 2023, the Fund recognized OPEB expense of $271 for the Plan. OPEB expense represents the change in the net OPEB liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, and actuarial assumptions or method. At June 30, 2023, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 614	$ (82,306)
Changes of assumptions	21,944	(10,114)
Net difference between projected and actual earning on OPEB plan investments	11,064	-
Total	$ 33,622	$ (92,420)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Measurement Period Ending June 30	Deferred Outflows/ (Inflows) of Resources
2024	$ (3,191)
2025	(6,560)
2026	(4,521)
2027	(9,661)
2028	(9,739)
Thereafter	(25,126)
Total	$ (58,798)

B. Retiree Cash Benefit Plan (SOMAR Plan)

Plan Description

The City provide an optional monetary allowance with an annual three (3%) adjustment each year to Public Safety and Executive employees who retire as regulated by the Public Employee's Retirement System. To be eligible for the optional monies, an employee must retire as follows:

1. Service Retirement: Employees who have served the City for at least ten (10) consecutive years immediately prior to retirement and are at least fifty (50) years old when they separate service from the City.

2. Disability Retirement: Employees who retire with a disability retirement are not required to be a certain age, but must have at least twenty (20) years of service with the City.

Note 7 – Other Postemployment Benefits ("OPEB") (Continued)

B. Retiree Cash Benefit Plan (SOMAR Plan) (Continued)

Plan Description (Continued)

Employees must have the minimum amount of sick leave on the books, as outlined in the chart below. If an employee has below the amount of sick leave required for their years of service, then they will only be eligible for the percentage paid equivalent to the amount of sick leave they do have on the books.

Years of Service	Sick Leave Balance	% of Optional Money Available
10	480	50
11	528	55
12	576	60
13	624	65
14	672	70
15	720	75
16	768	80
17	846	85
18	864	90
19	912	95
20-24	960	100
25	No Minimum amount required	100

Employees must retire within one hundred twenty (120) days. In addition, employees who separate service but do not retire as a PERS annuitant, shall not be eligible under for SOMAR benefits.

The City will pay a portion of the optional money to a retiree until the retiree reaches age sixty-five (65), upon which they are required to enroll in Medicare. At that time, the optional money will drop to an amount equivalent to the Kaiser Supplemental to Medicare rate through PERS.

The SOMAR benefit is expected to last into perpetuity. Payments are made on a bi-annual basis.

Benefits Provided

The SOMAR plan's provisions and benefits in effect at June 30, 2023, are summarized below:

	Executives	Police
Duration of benefits	Lifetime	Lifetime
Required service	50% at 10 years grading to 100% at 20 years	50% at 10 years grading to 100% at 20 years
Minimum age	Retirement	Retirement
Amount	$292 per month pre-65; based on Kaiser premium post-65	$388 per month pre-65; based on Kaiser premium post-65

Note 7 – Other Postemployment Benefits ("OPEB") (Continued)

B. Retiree Cash Benefit Plan (SOMAR Plan) (Continued)

Contributions

For the year ended June 30, 2023, the Fund contributions recognized as part of OPEB expense for the SOMAR plan were $2,303.

Actuarial Assumptions

The net pension liability of the SOMAR Plan was determined using an actuarial valuation as of July 1, 2022 using the following actuarial assumptions:

Cost method	Entry age normal
Discount Rate	3.65%
Inflation	2.50%
Aggregate payroll increases	2.75%
Mortality, retirement, and turnover	2021 CalPERS tables

Changes of Assumptions

The interest assumption changed from 3.54% to 3.65%. Assumed rates of retirement, termination, and mortality have been updated to align with those currently being used by the statewide pension systems

Discount Rate

The discount rate used to measure the total OPEB liability for the SOMAR plan was 3.65% based on the Bond Buyer 20 Bond Index.

Proportionate Share of Net OPEB Liability and OPEB Expense

The Fund proportionate share of the net OPEB liability as of June 30, 2023, measurement date, is as follows:

Plan's Proportion to Total Plan at June 30, 2023	Proportionate Share of Net OPEB Liability
5.357%	$ 100,875

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net pension liability of the SOMAR Plan, as well as what the SOMAR Plan's net pension liability (asset) would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

SOMAR Plan's Total OPEB Liability		
Discount Rate - 1% (2.65%)	Current Discount Rate (3.65%)	Discount Rate + 1% (4.65%)
$ 119,978	$ 100,875	$ 85,904

Note 7 – Other Postemployment Benefits ("OPEB") (Continued)

B. Retiree Cash Benefit Plan (SOMAR Plan) (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Relate to Pension

For the year ended June 30, 2023, the City recognized pension expense of $4,317 for the SOMAR plan. OPEB expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, and actuarial assumptions or method. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources for the SOMAR plan:

	SOMAR Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	20,084	$ (15,648)
Changes of assumptions	15,754	(16,010)
Total	$ 35,838	$ (31,658)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Measurement Period Ending June 30	SOMAR Plan Deferred Outflows/ (Inflows) of Resources
2024	$ 458
2025	458
2026	458
2027	458
2028	458
Thereafter	1,890
Total	$ 4,180

Payable to the OPEB Plan

At June 30, 2023, the Fund had no outstanding amounts owed to the SOMAR OPEB plan for contributions for the year ended June 30, 2023.

Note 8 – Contingencies

A. Lawsuits

The Fund is not involved in any matters of litigation that have arisen in the normal course of conducting business. Additionally, management believes that the City's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

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REQUIRED SUPPLEMENTARY INFORMATION

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of the Proportionate Share of the Plan's Net Pension Liability
For the Year Ended June 30, 2023

Last Ten Fiscal Years [1]

California Public Employees' Retirement System (CalPERS)

	Miscellaneous Plans				
Measurement Date:	**June 30, 2022[1]**	**June 30, 2021[1]**	**June 30, 2020[1]**	**June 30, 2019[1]**	**June 30, 2018[1]**
Proportion of the Net Pension Liability	0.0095%	0.0067%	0.0072%	0.0068%	0.0066%
Proportionate Share of the Net Pension Liability	$ 1,092,885	$ 364,008	$ 779,817	$ 694,727	$ 637,000
Covered Payroll	$ 437,549	$ 229,694	$ 335,827	$ 331,260	$ 321,063
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	249.77%	158.48%	232.21%	209.72%	198.40%
Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	73.13%	85.66%	73.63%	75.07%	77.69%

[1] Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of the Proportionate Share of the Plan's Net Pension Liability (Continued)
For the Year Ended June 30, 2023

Last Ten Fiscal Years [1]

California Public Employees' Retirement System (CalPERS)

	Miscellaneous Plans			
Measurement Date:	**June 30, 2017[1]**	**June 30, 2016[1]**	**June 30, 2015[1]**	**June 30, 2014[1]**
Proportion of the Net Pension Liability	0.0067%	0.0065%	0.0056%	0.0057%
Proportionate Share of the Net Pension Liability	$ 659,623	$ 562,902	$ 481,238	$ 462,583
Covered Payroll	$ 301,916	$ 251,715	$ 251,715	$ 319,046
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	218.48%	223.63%	191.18%	144.99%
Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.39%	75.87%	78.32%	78.10%

[1] Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of Contributions to the Pension Plan
For the Year Ended June 30, 2023

Last Ten Fiscal Years [1]

California Public Employees' Retirement System (CalPERS)

	Miscellaneous Plans				
Fiscal Year:	**2022-23[1]**	**2021-22**	**2020-21**	**2019-20**	**2018-19**
Actuarially Determined Contribution[2]	$ 105,146	$ 88,805	$ 102,423	$ 95,532	$ 91,514
Contribution in Relation to the Actuarially Determined Contribution[2]	(105,146)	(88,805)	(102,423)	(95,532)	(91,514)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll[3]	$ 449,800	$ 437,549 0	$ 229,694	$ 335,827	$ 331,260
Contributions as a Percentage of Covered Payroll	23.38%	20.30%	44.59%	28.45%	27.63%

[1] Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

[2] Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as side-funds are not considered separately financed specific liabilities.

[3] Includes one year’s payroll growth using 2.80% payroll growth assumption for fiscal year ended June 30, 2022; 2.75% payroll growth assumption for fiscal years ended June 30, 2018-21; 3.00% payroll growth assumption for fiscal years ended June 30, 2014-17.

Notes to the Schedule:

Benefit Changes: The figures above generally include any liability impact that may have resulted from voluntary benefit changes that occurred on or before the Measurement Date. However, offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes) that occurred after the valuation Date are not included in the figures above, unless the liability impact is deemed to be material by the plan actuary.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of Contributions to the Pension Plan (Continued)
For the Year Ended June 30, 2023

Last Ten Fiscal Years [1]

California Public Employees' Retirement System (CalPERS)

	Miscellaneous Plans			
Fiscal Year:	**2017-18**	**2016-17**	**2015-16**	**2014-15**
Actuarially Determined Contribution[2]	$ 63,159	$ 52,105	$ 52,884	$ 34,760
Contribution in Relation to the Actuarially Determined Contribution[2]	(63,159)	(52,105)	(52,884)	(34,760)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll[3]	$ 301,916	$ 251,715	$ 251,715	$ 319,046
Contributions as a Percentage of Covered Payroll	20.92%	20.70%	21.01%	10.89%

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of the Proportionate Share of the Plan's Net OPEB Liability (Asset) - PEHMCA
For the Year Ended June 30, 2023

Last Ten Fiscal Years [1]

Measurement Date:	**June 30, 2023[1]**	**June 30, 2022[1]**	**June 30, 2021[1]**	**June 30, 2020[1]**	**June 30, 2019[1]**
Proportion of the Net OPEB Liability (Asset)	5.36%	5.36%	5.88%	6.80%	5.16%
Proportionate Share of the Net OPEB Liability (Asset)	$ (12,132)	$ (763)	$ (28,052)	$ (11,718)	$ 66,474
Covered Payroll	$ 229,694	$ 335,827	$ 335,827	$ 331,260	$ 321,063
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	-5.28%	-0.23%	-8.35%	-3.54%	20.70%
Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	109.27%	100.56%	119.65%	106.92%	65.60%

[1] Historical information is presented only for measurement periods for which GASB No. 75 is applicable.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of the Proportionate Share of the Plan's Net OPEB Liability (Asset) - PEHMCA (Continued)
For the Year Ended June 30, 2023

Last Ten Fiscal Years [1]

Measurement Date:	**June 30, 2018[1]**
Proportion of the Net OPEB Liability (Asset)	5.19%
Proportionate Share of the Net OPEB Liability (Asset)	$ 75,521
Covered Payroll	$ 301,916
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	25.01%
Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	59.11%

[1] Historical information is presented only for measurement periods for which GASB No. 75 is applicable.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of Contributions to the OPEB Plan - PEHMCA
For the Year Ended June 30, 2023

Last Ten Fiscal Years [1]

Fiscal Year:	**2022-23[2]**	**2021-22[2]**	**2020-21[2]**	**2019-20[2]**	**2018-19**
Actuarially Determined Contribution	$ 5,879	$ 7,721	$ 1,179	$ 11,571	$ 18,642
Contribution in Relation to the Actuarially Determined Contribution	(5,879)	(7,721)	(1,179)	(11,571)	(18,642)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 449,800	$ 437,549	$ 229,694 0	$ 335,827	$ 331,260
Contributions as a Percentage of Covered Payroll	1.31%	1.76%	0.51%	3.45%	5.63%

[1] Historical information is presented only for measurement periods for which GASB No. 75 is applicable.

[2] Effective for the year ended June 30, 2020, PEHMCA Plan is valued separately.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of Contributions to the OPEB Plan - PEHMCA (Continued)
For the Year Ended June 30, 2023

Last Ten Fiscal Years [1]

Fiscal Year:	**2018-19**
Actuarially Determined Contribution	$ 10,641
Contribution in Relation to the Actuarially Determined Contribution	(10,641)
Contribution Deficiency (Excess)	$ -
Covered Payroll	$ 321,063
Contributions as a Percentage of Covered Payroll	3.31%

[1] Historical information is presented only for measurement periods for which GASB No. 75 is applicable.

[2] Effective for the year ended June 30, 2020, PEHMCA Plan is valued separately.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of the Proportionate Share of the Plan's Net OPEB Liability (Asset) - SOMAR
For the Year Ended June 30, 2023

Last Ten Fiscal Years [1]

Measurement Date:	**June 30, 2023[1 2]**	**June 30, 2022[1]**	**June 30, 2021[1 2]**	**June 30, 2020[1 2]**
Proportion of the Net OPEB Liability (Asset)	5.36%	5.36%	5.36%	5.36%
Proportionate Share of the Net OPEB Liability (Asset)	$ 100,875	$ 71,848	$ 86,665	$ 99,901
Covered Payroll	$ 437,549	$ 364,008	$ 345,902	$ 335,827
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	23.05%	19.74%	25.05%	29.75%
Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	0.00%	0.00%	0.00%	0.00%

[1] Historical information is presented only for periods for which GASB 73 is applicable.

[2] SOMAR Plan is now valued separately from PEHMCA Plan effective June 30, 2020.

Hercules Wastewater Fund
Required Supplementary Information (Unaudited)
Schedule of Contributions to the OPEB Plan - SOMAR
For the Year Ended June 30, 2023

Last Ten Fiscal Years [1]

Fiscal Year:	**2022-23[2]**	**2021-22[2]**	**2020-21[2]**	**2019-20[2]**
Actuarially Determined Contribution	$ 2,303	$ 2,342	$ 2,332	$ 2,182
Contribution in Relation to the Actuarially Determined Contribution	(2,303)	(2,342)	(2,332)	(2,182)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll	$ 437,549	$ 364,008	$ 345,902	$ 33,587
Contributions as a Percentage of Covered Payroll	0.53%	0.64%	0.67%	6.50%

[1] Historical information is presented only for measurement periods for which GASB No. 73 is applicable.

[2] Effective for the year ended June 30, 2020, SOMAR Plan is valued separately.

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