

Reports of Independent Auditors and Financial Statements with
Required Supplementary Information

**South San Luis Obispo County
Sanitation District**

June 30, 2025

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Report of Independent Auditors

To The Board of Directors
South San Luis Obispo County Sanitation District

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the South San Luis Obispo County Sanitation District (the “District”), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the major fund of the District, as of June 30, 2025, and the respective 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 Opinions

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

Responsibilities of Management 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 District’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 auditor’s 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 generally accepted auditing standards 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 generally accepted auditing standards 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of Proportionate Share of Net Pension Liability, the schedule of Pension Contributions, the schedule of Changes in OPEB Liability and Related Ratios, and the schedule of OPEB Contributions 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2026, on our consideration of the South San Luis Obispo County Sanitation District's internal control over 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim LLP

Santa Maria, California
March 4, 2026

SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT

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1600 ALOHA PLACE
OCEANO, CA 93475

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2025

The following discussion provides an overview of the consolidated financial condition and results of operations of the South San Luis Obispo County Sanitation District (the District) for the fiscal year ended June 30, 2025. This discussion should be read in conjunction with the accompanying financial statements and the notes thereto, which are included in this audit report.

The District's financial statements were audited by Moss, Levy & Hartzheim, CPAs, in accordance with U.S. generally accepted auditing standards.

Financial Highlights

At June 30, 2025, the District's total net position was \$24.57 million, compared to \$23.64 million at June 30, 2024. This represents an increase of 3.9 percent, reflecting positive operating results and capital activity during the fiscal year.

Total operating revenues increased 0.5 percent, from \$5.78 million in fiscal year 2024 to \$5.81 million for the fiscal year ended June 30, 2025.

At June 30, 2025, the District reported \$5.49 million in cash and cash equivalents and \$30.81 million in total current and long-term liabilities.

Total operating expenses for the fiscal year were \$5,041,775. Operating revenues exceeded operating expenses by \$763,575, resulting in positive operating income for the year.

Cash and cash equivalents decreased from \$11.69 million at June 30, 2024 to \$5.49 million at June 30, 2025. This decrease was primarily attributable to the planned expenditure of funds related to the District's Wastewater Treatment Plant Redundancy Project, including construction and capitalization of capital assets during the fiscal year.

Overview of the Financial Statements

This annual report consists of a series of financial statements designed to present the District's financial activities and condition. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows provide information about the District's activities and present a long-term view of its finances.

These statements are prepared using the accrual basis of accounting, which recognizes revenues when earned and expenses when incurred, regardless of when cash is received or paid. The statements report the District's net position and changes therein, which over time serve as a useful indicator of whether the District's financial condition is improving or declining.

Fund Financial Statements. A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The District uses fund accounting to demonstrate compliance with finance-related legal requirements. The District's activities are reported as a proprietary fund, specifically an enterprise fund type.

Notes to the Financial Statements. The notes provide additional information essential to a full understanding of the financial statements and can be found on pages 10 through 25 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes required supplementary information regarding the District's pension and other post-employment benefit obligations.

Government-wide Financial Analysis

Net position is a useful indicator of a government's financial condition over time. As of June 30, 2025, the District's net position increased from \$23.64 million at June 30, 2024 to \$24.57 million, reflecting favorable operating results and capital contributions during the fiscal year.

Net position includes the District's investment in capital assets, such as land, buildings, improvements, systems, machinery, and equipment, net of accumulated depreciation. These capital assets are used to provide services and are not available for future spending. Although capital assets are reported net of accumulated depreciation, the repayment of related debt must be funded from other sources, as the capital assets themselves cannot be liquidated to satisfy liabilities.

These results reflect the District's continued focus on maintaining financial stability while completing significant capital investments.

Business-type Activities

Business-type activities increased the District's net position by \$937,564 during the fiscal year ended June 30, 2025. Operating revenues exceeded operating expenses by \$763,575, reflecting continued stable operations and effective cost management. Capital contributions totaled \$425,015, consisting primarily of connection fees.

Non-operating activity during the fiscal year included the recognition of a \$9.04 million settlement receivable related to remediation of structural deficiencies identified in the Wastewater Treatment Plant Redundancy Project. The settlement represents amounts due to the District from the project's design engineer and was recognized during fiscal year 2025, with cash received subsequent to year-end. The settlement proceeds were offset by corresponding redundancy project remediation costs, resulting in no material impact on the District's change in net position for the year.

During the fiscal year, construction in progress associated with the Wastewater Treatment Plant Redundancy Project was completed and capitalized. The project enhancements improve system reliability and operational redundancy by allowing critical treatment processes to be taken offline for maintenance without risking regulatory compliance.

Overall, the results of business-type activities reflect the District's continued focus on maintaining financial stability while completing major capital investments and addressing project-related risks in a financially responsible manner.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2025, the District's investment in capital assets totaled approximately \$40.0 million, net of accumulated depreciation. Capital assets include land, buildings, improvements, systems, machinery, and equipment.

Additional information regarding the District's capital assets is presented in Note 5 of the financial statements.

Long-term Debt

As of June 30, 2025, the District's long-term obligations consisted of Certificates of Participation and compensated absences. Additional information regarding the District's long-term debt can be found in Note 7 of the financial statements.

Economic Factors and Next Year's Budgets and Rates

Certificates of Participation

On December 1, 2020, the District issued two series of Certificates of Participation to finance the Wastewater Treatment Plant Redundancy Project. Debt service payments for fiscal year 2025–26 total \$953,794 for Series A and \$4,509,650 for Series B.

Rate Increases

The District adopted and implemented a multi-year rate adjustment program effective September 1, 2025. Under this program, customer rates will increase by 9 percent annually each July 1, beginning July 1, 2026, and continuing through July 1, 2029. The September 1, 2025 increase represents a partial-year adjustment, with full annual increases applied in subsequent fiscal years.

Other Post-Employment Benefits

The District provides other post-employment benefits (OPEB) through the California Employers' Retiree Benefit Fund administered by CalPERS. An actuarial valuation with a measurement date of June 30, 2024 was used to determine the District's total OPEB liability as of June 30, 2025. Additional information is presented in Note 9 of the financial statements.

Requests for Information

This financial report is intended to provide a general overview of the District's finances for interested parties. Questions concerning this report may be directed to the District Administrator, South San Luis Obispo County Sanitation District, 1600 Aloha Place, Oceano, CA 93475.

Basic Financial Statements

South San Luis Obispo County Sanitation District
Statement of Net Position – Proprietary Fund
June 30, 2025

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS	
Cash and investments	\$ 5,491,459
Accounts receivable	474,706
Settlement receivable	9,043,929
Prepaid expenses	<u>15,937</u>
Total current assets	15,026,031
CAPITAL ASSETS, net	<u>40,042,151</u>
Total assets	<u>55,068,182</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pensions	659,327
Deferred OPEB	<u>237,471</u>
Total deferred outflows of resources	<u>896,798</u>
Total assets and deferred outflows of resources	<u>\$ 55,964,980</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

CURRENT LIABILITIES	
Accounts payable and accrued liabilities	\$ 763,984
Brine deposits	40,000
Interest payable	198,711
Compensated absences, current portion	25,046
Certificate of participation, current portion	4,915,000
Unamortized premium, current portion	<u>38,832</u>
Total current liabilities	5,981,573
NONCURRENT LIABILITIES	
Net pension liability	1,699,384
Other post employment benefits	1,125,533
Compensated absences, net of current portion	75,137
Certificate of participation, net of current portion	21,010,000
Unamortized premium, net of current portion	<u>922,260</u>
Total liabilities	<u>30,813,887</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred pensions	43,591
Deferred OPEB	<u>533,798</u>
Total deferred inflows of resources	<u>577,389</u>
NET POSITION	
Net investment in capital assets	13,156,059
Restricted for capital expansion	3,755,648
Unrestricted	<u>7,661,997</u>
Total net position	<u>24,573,704</u>
Total liabilities, deferred inflow of resources, and net position	<u>\$ 55,964,980</u>

The notes to basic financial statements are an integral part of this statement.

South San Luis Obispo County Sanitation District

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund June 30, 2025

OPERATING REVENUE	
Sewer services fees	\$ 5,805,350
Total operating revenues	<u>5,805,350</u>
OPERATING EXPENSE	
Gross wages	1,257,169
Payroll taxes and benefits	97,945
Employee benefits	279,423
Retirement contribution	357,153
OPEB expense	20,719
Uniforms	34,404
Repairs and maintenance	652,464
Equipment rental	8,095
Insurance	109,252
Depreciation	596,115
Communications	17,489
Utilities	492,761
Property tax	36,934
Special services	195,866
Office and supplies	17,209
Fuel and oil	9,055
Membership, permits, and license fees	88,336
Legal	19,430
Accounting	27,807
Plant chemicals, lab, and analysis	633,529
Employee training	6,476
Solids handling	75,761
Small tools	8,383
Total operating expenses	<u>5,041,775</u>
OPERATING INCOME	<u>763,575</u>
NONOPERATING REVENUE (EXPENSES)	
Investment income	318,167
Interest expense	(569,193)
Redundancy settlement income	9,043,929
Redundancy project expense	<u>(9,043,929)</u>
Total non-operating revenues (expenses)	<u>(251,026)</u>
CAPITAL CONTRIBUTIONS	
Connection fees	<u>425,015</u>
Change in net position	937,564
NET POSITION, beginning of year	<u>23,636,140</u>
NET POSITION, end of year	<u>\$ 24,573,704</u>

The notes to basic financial statements are an integral part of this statement.

South San Luis Obispo County Sanitation District

Statement of Cash Flows – Proprietary Fund

For the Year Ended June 30, 2025

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 6,290,310
Payments to vendors	(3,996,888)
Payments to employees	<u>(1,156,711)</u>
Net cash provided by operating activities	<u>1,136,711</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	425,015
Acquisition and construction of capital assets	(7,036,494)
Principal paid on capital debt	(430,000)
Interest paid on capital debt	<u>(615,094)</u>
Net cash used in capital and related financing activities	<u>(7,656,573)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>318,167</u>
Net cash provided by investing activities	<u>318,167</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,201,695)
CASH AND CASH EQUIVALENTS, beginning of year	<u>11,693,154</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,491,459</u>
Reconciliation of operating income to net cash provided	
by operating activities	
Operating income	\$ 763,575
Adjustments to reconcile operating income to net	
cash provided by operating activities	
Depreciation	596,115
Change in assets, deferred outflows, liabilities, and deferred inflows,	
Accounts receivable	349,037
Prepaid expenses	145,923
Deposits	(10,000)
Deferred outflows of resources relating to pensions	128,448
Deferred outflows of resources relating to OPEB	42,382
Accounts payable	(808,397)
Compensated absences	34,668
OPEB liability	(22,601)
Net pension liability	(11,698)
Deferred inflows of resources relating to pensions	(27,380)
Deferred inflows of resources relating to OPEB	<u>(43,361)</u>
Net cash provided by operating activities	<u>\$ 1,136,711</u>

The notes to basic financial statements are an integral part of this statement.

South San Luis Obispo County Sanitation District

Notes to Basic Financial Statements

June 30, 2025

Note 1 – Reporting Entity

The reporting entity is the South San Luis Obispo County Sanitation District. The District is responsible for trunk main and sewer pipes from the Cities of Arroyo Grande, Grover Beach, and the Oceano Community Services District. The District is governed by a three-member body, known as the District Board, who are appointed by the respective member agencies on a yearly basis. The District Board includes one representative from each of its Member Agencies, specifically, the City of Arroyo Grande, City of Grover Beach and the Oceano Community Services District. The District provides wastewater disposal services.

There are no component units included in this report which meet the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, No. 61, No. 80 and No. 90.

Note 2 – Summary of Significant Accounting Policies

A. Basis of Accounting and Measurement Focus

The District's operations are reported as an enterprise fund. Enterprise fund accounting is used when an entity's operations are financed and conducted similarly to private business enterprises, with the intent that costs of providing services—including depreciation—be recovered primarily through user charges. The District recovers its costs principally through sewer service charges and connection fees.

The District uses the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

The District distinguishes between operating and non-operating activities. Operating revenues and expenses arise from the District's principal ongoing operations, primarily providing sewer services. Operating revenues consist mainly of sewer service charges and connection fees. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Revenues and expenses that do not result directly from the District's primary service activities are classified as non-operating. The District is responsible for funding all expenses regardless of their classification as operating or non-operating.

The District prepares its financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

B. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less at the date of acquisition to be cash equivalents. Cash and cash equivalents include amounts held in demand deposits and money market accounts.

C. Investments

The District's investment policy authorizes investments in accordance with Section 53601 of the California Government Code. Investments are stated at fair value, except for investment contracts and money market investments with remaining maturities of one year or less at the time of purchase, which are reported at amortized cost. Fair value is determined using quoted market prices. Investment income includes interest earnings and realized and unrealized changes in fair value.

South San Luis Obispo County Sanitation District

Notes to Basic Financial Statements

June 30, 2025

D. **Receivables**

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's assessment of the collectability of specific accounts and the aging of receivables.

E. **Capital Assets**

Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. Capital assets are defined as assets with an initial individual cost exceeding \$2,500 and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Sewer lines and mains	50–75 years
Treatment plant and facilities	20–50 years
Pump stations	15–30 years
Vehicles and equipment	5–15 years
Building and structures	25–50 years

F. **Restricted Assets**

Restricted assets are financial resources segregated for a special purpose such as construction of improvements and financing of debt obligations. These assets are for the benefit of a distinct group and as such are legally or contractually restricted.

G. **Compensated Absences**

The District's employees accumulate vacation and sick leave based on length of service. Vacation leave vests with employees and is payable upon separation from employment. Sick leave is accumulated but is not paid upon termination. The District accrues a liability for compensated absences when earned by employees. The liability is measured using the employee's pay rate at the balance sheet date and includes salary-related payments such as the District's share of payroll taxes. The current portion of the liability represents amounts estimated to be used within one year, with the remaining balance reported as noncurrent.

H. **Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.

I. **Pensions**

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

South San Luis Obispo County Sanitation District

Notes to Basic Financial Statements

June 30, 2025

J. **Other Postemployment Benefits (OPEB)**

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

K. **Deferred Outflows and Inflows of Resources**

Pursuant to GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*," and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*," the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The District has two items which qualify for reporting in this category; refer to Note 8 and Note 9 for a detailed listing of the deferred outflows of resources the District has reported.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has two items which qualify for reporting in this category; refer to Note 8 and Note 9 for a detailed listing of the deferred inflows of resources the District has reported.

L. **Net Position**

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities be added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

M. **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

N. **Budgetary Information**

The District adopts an annual operating budget, which is approved by the Board of Directors prior to the beginning of each year. The budget serves as a management tool and is not a legally adopted budget. Budgetary comparisons are presented as required supplementary information.

South San Luis Obispo County Sanitation District

Notes to Basic Financial Statements

June 30, 2025

O. Recently Issued Accounting Pronouncements

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This statement enhances the financial reporting model by refining the focus of management's discussion and analysis, replacing extraordinary and special item classifications, and modifying budgetary comparison presentation requirements. The requirements of this statement are effective for the District's year ending June 30, 2026. The District is currently evaluating the impact of this statement on its financial statements.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. This statement establishes requirements for certain capital assets to be disclosed separately in the notes to financial statements and establishes disclosure requirements for capital assets held for sale. The requirements of this statement are effective for the District's year ending June 30, 2026. The District does not expect this statement to have a significant impact on its financial statements.

Note 3 – Cash and Investments

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2025, the District had the following cash and investments on hand:

Cash in bank and on hand	\$ 356,564
Cash and investments with County Treasurer	2,979,012
Local Agency Investment Fund (LAIF)	<u>2,155,883</u>
 Total cash and investments, Statement of Net Position	 <u>\$ 5,491,459</u>

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had investments in the San Luis Obispo County Investment Pool and the Local Agency Investment Fund, those external pools are not measured under Level 1, 2, or 3.

Investments authorized by the California Government Code – The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

South San Luis Obispo County Sanitation District

Notes to Basic Financial Statements

June 30, 2025

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
Federal Agency Securities	N/A	None	None
Bankers' Acceptances	180 Days	40%	30%
Commercial Paper	270 Days	25%	10%
Negotiable Certificates of Deposit	5 Years	30%	None
Repurchase and Reserve Repurchase Agreements	92 Days	20% of Base Value	None
Medium-Term Notes	5 Years	30%	None
Mutual Funds	5 Years	15%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$ 75,000,000
State Registered Warrants, Notes or Bonds	N/A	None	None
Notes and Bonds for other Local California Agencies	5 Years	None	None

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, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District 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.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
San Luis Obispo Investment Pool	\$ 2,979,012	\$ 2,979,012	\$ –	\$ –	\$ –
State Investment Pool (LAIF)	<u>2,155,883</u>	<u>2,155,883</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>\$ 5,134,895</u>	<u>\$ 5,134,895</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

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 rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code and the District's investment policy, and the actual rating as of year-end for each investment type.

South San Luis Obispo County Sanitation District

Notes to Basic Financial Statements

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Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				AAA	Not Rated
San Luis Obispo Investment Pool	\$ 2,979,012	N/A	\$ -	\$ -	\$ 2,979,012
State Investment Pool (LAIF)	2,155,883	N/A	-	-	2,155,883
	<u>\$ 5,134,895</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,134,895</u>

Concentration of credit risk – The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments.

Custodial credit risk – 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 District'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 following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2025, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Investment in State Pool (LAIF) – The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Note 4 – Settlement Receivable

During the year ended June 30, 2025, the District identified structural failures in the Secondary Clarifier 2 (SC2) floor slab constructed as part of the Wastewater Treatment Plant Redundancy Project. An engineering evaluation determined the failures were primarily attributable to deficiencies in the original design. The District incurred costs to rehabilitate the SC2 structure, which was completed in June 2025.

The District reached a settlement agreement with the project's design engineer to recover all costs incurred for the SC2 rehabilitation. The settlement totaled \$9,043,929 and was received in July 2025. As all eligibility requirements were met and the related remediation expenditures were incurred during the year ended June 30, 2025, the District recognized the settlement as revenue and recorded a corresponding receivable.

South San Luis Obispo County Sanitation District

Notes to Basic Financial Statements

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Note 5 – Capital Assets

A schedule of changes in capital assets and depreciation for the year ended June 30, 2025, is shown below:

	Beginning July 1, 2024	Additions	Deletions	Transfers	Ending June 30, 2025
Capital assets not being depreciated					
Land	\$ 431,425	\$ –	\$ –	\$ –	\$ 431,425
Construction in progress	36,428,181	7,036,494	(9,043,929)	(34,420,746)	–
Total capital assets not being depreciated	36,859,606	7,036,494	(9,043,929)	(34,420,746)	431,425
Capital assets being depreciated					
Treatment facilities	22,100,168	–	–	34,420,746	56,520,914
Disposal facilities	1,859,465	–	–	–	1,859,465
Collection facilities	2,849,600	–	–	–	2,849,600
General equipment	1,447,759	–	–	–	1,447,759
Total capital assets being depreciated	28,256,992	–	–	34,420,746	62,677,738
Less accumulated depreciation	(22,470,897)	(596,115)	–	–	(23,067,012)
Total capital assets being depreciated, net	5,786,095	(596,115)	–	34,420,746	39,610,726
Capital assets, net	\$ 42,645,701	\$ 6,440,379	\$ (9,043,929)	\$ –	\$ 40,042,151

During the year ended June 30, 2025, the District completed construction of the Wastewater Treatment Plant (WWTP) Redundancy Project. The project added two activated sludge aeration basins, a secondary clarifier, pumping and piping systems, sludge handling processes, electrical and instrumentation improvements, a backup generator, and flood proofing of critical plant systems. These improvements enable major process units to be taken offline for maintenance without risking effluent permit violations. The project was placed in service in June 2025.

Note 6 – Long-Term Liabilities

The changes in long-term liabilities for the year ended June 30, 2025, are as follows:

	Beginning July 1, 2024	Additions	Retirements	Ending June 30, 2025	Due within One year
Certificate of participation	\$ 26,355,000	\$ –	\$ (430,000)	\$ 25,925,000	\$ 4,915,000
Unamortized premium	999,924	–	(38,832)	961,092	38,832
Compensated absences	65,515	34,668	–	100,183	25,046
OPEB	1,148,134	–	(22,601)	1,125,533	–
Net pension liability	1,711,082	–	(11,698)	1,699,384	–
Total	\$ 30,279,655	\$ 34,668	\$ (503,131)	\$ 29,811,192	\$ 4,978,878

South San Luis Obispo County Sanitation District

Notes to Basic Financial Statements

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Note 7 – Certificates of Participation

On December 1, 2020, the 2020 Certificates of Participation Series A for \$23,045,000 and Series B for \$4,465,000 at a premium of \$1,155,252 were issued to provide funding for the Redundancy Project. The District has pledged all net revenues to repay the 2020 Certificates of Participation. In the event of default, all principal and accrued interest becomes due. The certificates are payable semiannually on March 1 and September 1 of each year with interest rates varying from 2% to 5%. As of June 30, 2025, \$25,925,000 was still outstanding.

Future minimum payment obligations for the certificates on June 30, 2025, are as follows:

Year Ended June 30	Series A		
	Principal	Interest	Total
2026	\$ 450,000	\$ 503,794	\$ 953,794
2027	605,000	477,419	1,082,419
2028	635,000	446,419	1,081,419
2029	670,000	413,794	1,083,794
2030	695,000	386,619	1,081,619
2031-2035	3,740,000	1,675,438	5,415,438
2036-2040	4,075,000	1,346,534	5,421,534
2041-2045	4,505,000	919,737	5,424,737
2046-2050	5,015,000	406,930	5,421,930
2051-2055	1,070,000	12,038	1,082,038
	<u>\$ 21,460,000</u>	<u>\$ 6,588,722</u>	<u>\$ 28,048,722</u>

Year Ended June 30	Series B		
	Principal	Interest	Total
2026	\$ 4,465,000	\$ 44,650	\$ 4,509,650
	<u>\$ 4,465,000</u>	<u>\$ 44,650</u>	<u>\$ 4,509,650</u>

Note 8 – Defined Benefit Pension Plan

A. General Information about the Pension Plans

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

Benefits provided – 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,

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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 on June 30, 2025, are summarized as follows:

Hire Date	Miscellaneous	
	Hired Prior to January 1, 2013*	Hired On or after January 1, 2013
Benefit formula	2.0% @ 55	2% @ 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	1.4% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.75%
Required employer contribution rates	13.41% + \$141,006	7.87%

* A new employee may transfer into the Classic Member formula if he/she comes from another agency participating in the CalPERS' or reciprocal retirement system and did not have more than a six month break in service.

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$267,783 for the year ended June 30, 2025.

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

As of June 30, 2025, the District reported a liability of \$1,699,384 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023 rolled forward to June 30, 2024 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined.

The District's proportionate share of net pension liability for the plan as of June 30, 2025, was as follows:

Proportion - June 30, 2023	0.03422%
Proportion - June 30, 2024	<u>0.03514%</u>
Change - increase	<u>0.00092%</u>

For the year ended June 30, 2025, the District recognized pension expense of \$357,153. Pension 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, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

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Notes to Basic Financial Statements

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As of June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 267,783	\$ -
Differences between expected and actual experience	146,927	5,733
Changes in assumptions	43,678	-
Net difference between projected and actual earnings on retirement plan investments	97,832	-
Adjustment due to differences in proportions	5,838	37,858
Difference in actual contributions and proportionate share of contributions	<u>97,269</u>	<u>-</u>
	<u>\$ 659,327</u>	<u>\$ 43,591</u>

\$267,783 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expenses as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2026	\$ 117,858
2027	250,942
2028	12,679
2029	<u>(33,526)</u>
	<u>\$ 347,953</u>

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Notes to Basic Financial Statements

June 30, 2025

Actuarial assumptions – The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Projected Salary Increase	Varies by Entry Age and Service
Mortality	Derived using CalPERS' Membership Data for all Funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.30% thereafter

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

Discount rate – The discount rate used to measure the total pension liability was 6.90%. 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.

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 best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class.

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

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June 30, 2025

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

Asset Class	New Strategic Allocation	Real Return (a,b)
Global Equity - cap-weighted	30.0%	4.54%
Global Equity - non-cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporations	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%
 Total	100.0%	

(a) An expected inflation of 2.30% was used for this period.

(b) Figures are based on the 2021 Asset Liability Management Study.

Sensitivity of the net pension liability to changes in the discount rate – The following represents the District’s proportionate share of the net pension liability calculated using the discount rate of 6.90 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.90 percent) or 1- percentage point higher (7.90 percent) than the current rate:

	Discount Rate-1% 5.90%	Current Discount Rate 6.90%	Discount Rate +1% 7.90%
District's proportionate share of the net pension plan liability	\$ 2,519,126	\$ 1,699,384	\$ 1,024,615

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

C. Payable to the Pension Plan

As of June 30, 2025, the District had no amount outstanding for contributions to the pension plan required for the year ended June 30, 2025.

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Notes to Basic Financial Statements

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Note 9 – Other Postemployment Benefits

Plan description – The District provides post-retirement health benefits to all retirees with five years of service who retire from the District and must have reached the minimum age of 50. Benefits continue for the lifetime of the retiree. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No.75.

Benefit terms – For those hired prior to 2013, the employee shall receive 100% of the stipulated amount. For those hired between 2013 through 2017, they shall receive 50% of the premium. For any employees hired after 2017, they will receive the minimum employer contribution.

Employees covered – As of the June 30, 2023, actuarial valuation, the following current and former employees were covered by the benefit terms under the District's Plan:

Active plan members	10
Inactive employees or beneficiaries currently receiving benefits	<u>7</u>
Total	<u><u>17</u></u>

The District currently finances benefits on a pay-as-you-go basis.

OPEB liability – The District's OPEB liability was measured as of June 30, 2024 and the total OPEB liability was determined by an actuarial valuation dated June 30, 2023 that was rolled forward to determine the June 30, 2024 total OPEB liability, based on the following assumptions:

Discount Rate	3.93%
Inflation	2.50%
Salary Increases	2.75%
Healthcare Trend Rate	4.00%
Mortality Rate	Derived from 2021 CalPERS' Activity Mortality For Miscellaneous Employees
Pre-Retirement Turnover	2021 CalPERS' Turnover for Miscellaneous employees

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. To achieve the goal set by the investment policy, plan assets will be managed to earn, on a long-term basis, a rate of return equal to or in excess of the target rate of return of 3.93 percent.

Change in assumptions – The discount rate was increased from 3.65 percent to 3.93 percent.

Discount rate – GASB Statement No. 75 requires a discount rate that reflects the following:

- a) The long-term expected rate of return on OPEB plan investments — to the extent that the OPEB plan's fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;

South San Luis Obispo County Sanitation District

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June 30, 2025

- b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher — to the extent that the conditions in (a) are not met.

To determine a resulting single (blended) rate, the amount of the plan's projected fiduciary net position (if any) and the amount of projected benefit payments is compared in each period of projected benefit payments. The discount rate used to measure the District's total OPEB liability is based on these requirements and the following information:

Reporting Date	Measurement Date	Long Term Expected Return of Plan Investments	Municipal 20 Year High Grade Rate Index	Discount Rate
June 30, 2025	June 30, 2024	3.93%	3.93%	3.93%
June 30, 2024	June 30, 2023	3.65%	3.65%	3.65%
June 30, 2023	June 30, 2022	3.54%	3.54%	3.54%

Changes in OPEB Liability are as follows:

	Total OPEB Liability
Balance at June 30, 2024 (Valuation Date, June 30, 2022)	<u>\$ 1,148,134</u>
Changes recognized for the measurement period:	
Service cost	33,480
Interest	41,467
Changes in assumptions	(39,941)
Experience (Gains)/Losses	(13,331)
Benefit payments	<u>(44,276)</u>
Net changes	<u>(22,601)</u>
Balance at June 30, 2025 (Measurement Date, June 30, 2024)	<u><u>\$ 1,125,533</u></u>

Sensitivity of the OPEB liability to changes in the discount rate – The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.93 percent) or 1-percentage-point higher (4.93 percent) than the current discount rate:

	1% Decrease 2.93%	Current Rate 3.93%	1% Increase 4.93%
OPEB Liability	\$ 1,274,423	\$ 1,125,533	\$ 1,006,323

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Sensitivity of the OPEB liability to changes in the healthcare trend rates – The following presents the OPEB liability, as well as what the OPEB liability would be if it were calculated using a healthcare cost trend rates that are 1-percentage point lower (3.00 percent) or 1-percentage-point higher (5.00 percent) than the current healthcare cost trend rates:

	1% Decrease (3.00%)	Healthcare Cost Trend Rate (4.00%)	1% Increase (5.00%)
OPEB Liability	\$ 1,057,074	\$ 1,125,533	\$ 1,216,815

OPEB expense and deferred outflows/inflows of resources related to OPEB – For the year ended June 30, 2025, the District recognized OPEB expense of \$20,719. As of the year ended June 30, 2025, the District reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 44,296	\$ –
Changes in assumptions	193,175	353,696
Differences between expected and actual experience	–	180,102
	<u>\$ 237,471</u>	<u>\$ 533,798</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to OPEB liability to be recognized in future periods in a systematic and rational manner. \$44,296 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2026.

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

Year ending June 30	Amount
2026	\$ (54,231)
2027	(54,231)
2028	(54,231)
2029	(48,301)
2030	(60,122)
Thereafter	<u>(69,507)</u>
	<u>\$ (340,623)</u>

Note 10 – Commitment and Contingencies

According to the District's staff and attorney, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence.

South San Luis Obispo County Sanitation District

Notes to Basic Financial Statements

June 30, 2025

Note 11 – Subsequent Events

The financial statements include an evaluation of subsequent events through March 4, 2026, the date the financial statements were available to be issued. Events occurring after the reporting period but prior to that date have been evaluated to determine whether they require recognition or disclosure in the financial statements. No subsequent events meeting the criteria for recognition or disclosure were identified.

Required Supplementary Information

South San Luis Obispo County Sanitation District
Schedule of Proportionate Share of Net Pension Liability – Last 10 Years
As of June 30, 2025

The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Proportion of the net pension liability	0.01401%	0.01372%	0.01378%	0.01606%	0.01255%
Proportionate share of the net pension liability (asset)	\$ 1,699,384	\$ 1,711,082	\$ 1,591,117	\$ 868,708	\$ 1,365,924
Covered payroll	\$ 1,077,320	\$ 927,281	\$ 862,697	\$ 846,584	\$ 784,070
Proportionate share of the net pension liability as a percentage of covered payroll	157.74%	184.53%	184.40%	102.60%	174.20%
Plan's total pension liability	\$ 55,320,956,562	\$ 52,441,984,274	\$ 49,525,975,138	\$ 46,174,942,264	\$ 43,702,930,887
Plan's fiduciary net position	\$ 43,193,516,203	\$ 39,966,633,692	\$ 37,975,170,163	\$ 40,766,653,876	\$ 32,822,501,335
Plan fiduciary net position as a percentage of the total pension liability	78.08%	76.21%	76.68%	88.29%	75.10%
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Proportion of the net pension liability	0.01232%	0.01200%	0.01186%	0.01163%	0.01117%
Proportionate share of the net pension liability (asset)	\$ 1,262,383	\$ 1,156,301	\$ 1,176,202	\$ 1,006,552	\$ 766,801
Covered payroll	\$ 702,820	\$ 762,177	\$ 776,359	\$ 648,335	\$ 512,061
Proportionate share of the net pension liability as a percentage of covered payroll	179.60%	151.70%	151.50%	155.30%	149.70%
Plan's total pension liability	\$ 41,426,453,489	\$ 38,944,855,364	\$ 37,161,348,332	\$ 33,358,627,624	\$ 31,771,217,402
Plan's fiduciary net position	\$ 31,179,414,067	\$ 29,308,589,559	\$ 27,244,095,376	\$ 24,705,532,291	\$ 24,907,305,871
Plan fiduciary net position as a percentage of the total pension liability	75.26%	75.26%	73.31%	74.06%	78.40%

Note to Schedule

There were no changes in assumptions or benefit terms for the year ended June 30, 2025.

South San Luis Obispo County Sanitation District
Schedule of Pension Contributions – Last 10 Years
As of June 30, 2025

The following table provides required supplementary information regarding the District's Pension Plan.

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contractually required contribution (actuarially determined)	\$ 267,783	\$ 237,910	\$ 262,671	\$ 204,264	\$ 177,437
Contribution in relation to the actuarially determined contributions	<u>267,783</u>	<u>237,910</u>	<u>262,671</u>	<u>204,264</u>	<u>177,437</u>
Contribution deficiency (excess)	<u>\$ –</u>				
Covered payroll	\$ 991,120	1,077,320	927,281	862,697	846,584
Contributions as a percentage of covered payroll	27.02%	22.08%	28.33%	23.68%	20.96%
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution (actuarially determined)	\$ 161,923	\$ 136,795	\$ 98,219	\$ 104,648	\$ 77,019
Contribution in relation to the actuarially determined contributions	<u>161,923</u>	<u>136,795</u>	<u>98,219</u>	<u>104,648</u>	<u>77,019</u>
Contribution deficiency (excess)	<u>\$ –</u>				
Covered payroll	\$ 784,070	\$ 702,820	\$ 762,177	\$ 776,539	\$ 648,335
Contributions as a percentage of covered payroll	20.65%	19.46%	12.89%	13.48%	11.88%

Note to Schedule

There were no changes in assumptions or benefit terms for the year ended June 30, 2025.

South San Luis Obispo County Sanitation District
Schedule of Changes in OPEB Liability and Related Ratios – Last 10 Years*
As of June 30, 2025

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Total OPEB Liability				
Service cost	\$ 33,480	\$ 28,057	\$ 38,862	\$ 12,593
Interest on the total OPEB liability	41,467	45,276	33,032	39,495
Actual and expected experience difference	(13,331)	(169,590)	(10,285)	(29,564)
Changes in assumptions	(39,941)	2,318	(246,749)	(234,894)
Benefit payments	<u>(44,276)</u>	<u>(58,026)</u>	<u>(59,461)</u>	<u>(64,892)</u>
Net change in total OPEB Liability	(22,601)	(151,965)	(244,601)	(277,262)
Total OPEB liability - beginning	<u>1,148,134</u>	<u>1,300,099</u>	<u>1,544,700</u>	<u>1,821,962</u>
Total OPEB liability - ending	<u>\$ 1,125,533</u>	<u>\$ 1,148,134</u>	<u>\$ 1,300,099</u>	<u>\$ 1,544,700</u>
Covered payroll	\$ 1,077,320	\$ 927,281	\$ 862,687	\$ 846,584
Total OPEB liability as a % of covered payroll	104.48%	123.82%	150.70%	182.46%
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability				
Service cost	\$ 8,416	\$ 71,936	\$ 75,519	\$ 73,498
Interest on the total OPEB liability	50,948	68,087	68,178	60,374
Actual and expected experience difference	(7,164)	(33,833)	–	–
Changes in assumptions	345,086	63,487	(76,832)	–
Change in benefit terms	–	(403,851)	–	–
Benefit payments	<u>(60,728)</u>	<u>(69,690)</u>	<u>(68,012)</u>	<u>(65,396)</u>
Net change in total OPEB Liability	336,558	(303,864)	(1,147)	68,476
Total OPEB liability - beginning	<u>1,485,404</u>	<u>1,789,268</u>	<u>1,790,415</u>	<u>1,721,939</u>
Total OPEB liability - ending	<u>\$ 1,821,962</u>	<u>\$ 1,485,404</u>	<u>\$ 1,789,268</u>	<u>\$ 1,790,415</u>
Covered payroll	\$ 784,070	\$ 702,820	\$ 762,177	\$ 776,359
Total OPEB liability as a % of covered payroll	232.37%	211.35%	234.76%	230.62%

Notes to Schedule

Change in assumptions – The discount rate was increased from 3.65 percent to 3.93 percent.

*Year 2018 was the first year of implementation, therefore only eight years are shown.

South San Luis Obispo County Sanitation District

Schedule of OPEB Contributions – Last 10 Years*

As of June 30, 2025

The District's contribution for the year ended June 30, 2025 was \$44,296. The District did not have an actuary calculate the Actuarially Determined Contribution for the year ended June 30, 2025, therefore the District does not need to comply with GASB 75's Required Supplementary Information

The District's contribution for the year ended June 30, 2024 was \$44,276. The District did not have an actuary calculate the Actuarially Determined Contribution for the year ended June 30, 2024, therefore the District does not need to comply with GASB 75's Required Supplementary Information requirements.

The District's contribution for the year ended June 30, 2023 was \$58,026. The District did not have an actuary calculate the Actuarially Determined Contribution for the year ended June 30, 2023, therefore the District does not need to comply with GASB 75's Required Supplementary Information requirements.

The District's contribution for the year ended June 30, 2022 was \$59,461. The District did not have an actuary calculate the Actuarially Determined Contribution for the year ended June 30, 2022, therefore the District does not need to comply with GASB 75's Required Supplementary Information requirements.

The District's contribution for the year ended June 30, 2021 was \$64,892. The District did not have an actuary calculate the Actuarially Determined Contribution for the year ended June 30, 2021, therefore the District does not need to comply with GASB 75's Required Supplementary Information requirements.

The District's contribution for the year ended June 30, 2020 was \$60,728. The District did not have an actuary calculate the Actuarially Determined Contribution for the year ended June 30, 2020, therefore the District does not need to comply with GASB 75's Required Supplementary Information requirements.

The District's contribution for the year ended June 30, 2019 was \$69,690. The District did not have an actuary calculate the Actuarially Determined Contribution for the year ended June 30, 2019, therefore the District does not need to comply with GASB 75's Required Supplementary Information requirements.

The District's contribution for the year ended June 30, 2018 was \$73,106. The District did not have an actuary calculate the Actuarially Determined Contribution for the year ended June 30, 2018, therefore the District does not need to comply with GASB 75's Required Supplementary Information requirements.

Notes to Schedule

Change in assumptions – The discount rate was increased from 3.65 percent to 3.93 percent.

*Year 2018 was the first year of implementation, therefore only eight years are shown.

Report of Independent Auditors 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*

To The Board of Directors
South San Luis Obispo County Sanitation District

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, the financial statements of the South San Luis Obispo County Sanitation District (the District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 4, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 the 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.

A handwritten signature in black ink that reads "Moss, Levy & Hartzheim LLP". The signature is written in a cursive, flowing style.

Santa Maria, California
March 4, 2026