

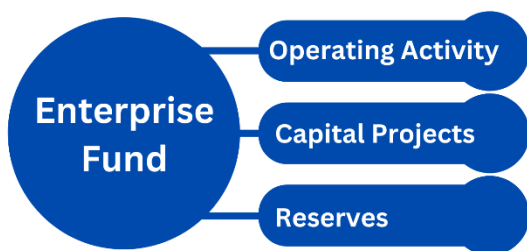


## FINANCIAL POLICIES & GOALS

(This page intentionally left blank)

# Accounting and Budget Structure

## Fund Structure



CHWD operates as an enterprise fund with a fiscal year that begins January 1 and ends on December 31. The District operates with one major fund on the accrual basis of accounting. Generally accepted accounting principles (GAAP) require local governments to use a proprietary-type fund, such as an

enterprise fund, to account for business-type activities similar to those found in the private sector. An enterprise fund is one in which the expenditures are supported by fees collected primarily through charging users in exchange for services. CHWD operations are supported almost entirely by fees collected from customers in exchange for providing water service, including providing customer service, continuously working to maintain and repair the District’s infrastructure, and providing a dependable supply of clean, safe water. CHWD’s management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft, or misuse. The internal control structure ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). CHWD’s internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

CHWD’s Board annually adopts a budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations, accountability for CHWD’s enterprise operations, and capital projects. The budget is presented on the accrual basis of accounting and is consistent with the presentation of CHWD’s Annual Comprehensive Financial Report. As part of the budget process the financial model is updated annually to analyze revenue and expenses along with capital improvements; more information regarding the District’s financial model is provided in the “Financial Model” section.

CHWD defines a balanced budget as one in which current revenues meet or exceed current expenditures, though the District may also consider the use of reserves and other financing resources as appropriate to maintain balance.

## Financial Model

The Government Finance Officers Association of the United States and Canada (GFOA) recommends that government agencies prepare multi-year forecasts of revenues and expenditures as part of the budget process. This practice is considered a key component of sound financial management and long-term planning.

In 2013, the District partnered with NBS Government Finance Group to develop a ten-year financial model, which was first utilized in preparing the 2014 Annual Budget. The model incorporates historical and projected revenues and expenditures, economic and demographic trends, and cash flow assumptions to estimate the District's financial position over time.

This modeling approach supports the development of appropriate service rates to achieve targeted financial outcomes. Often referred to as priority-based budgeting, this method helps define organizational goals, establish spending priorities, and ensure the best possible value for ratepayers.

In 2019, the District engaged Raftelis Financial Consultants to update the financial model, which was subsequently refined with assistance from IB Consulting. Regularly updating the model's assumptions and inputs is considered best practice, as conditions and financial factors evolve over time. During this update, the District also reexamined its rate structure to confirm that cost allocations remained equitable across different meter sizes.

The analysis concluded that adjustments to the fixed portion of the rate structure were necessary to better reflect the actual demand each meter size places on the water system. The updated financial model, including the rate calibration component, was presented to the Board of Directors in August 2019.

### **Five-Year Forecast**

Table 2 illustrates the District's projected revenues and expenditures over the 2025–2029 period. The forecast assumes steady revenues in the absence of rate increases. Expected increases in operating costs follow the 10-year average Consumer Price Index (CPI) for San Francisco, while construction cost growth reflects the 5-year average Engineering News Record Construction Cost Index (ENRCCI) for San Francisco.

Table 2

	2024 Actual	2025 Estimated	2026 Proposed	2027 Projected	2028 Projected	2029 Projected
<b>Revenues</b>						
Water Sales	\$ 18,583,311	\$ 21,787,740	\$ 23,138,948	\$ 23,138,948	\$ 23,138,948	\$ 23,138,948
Connection and Other Fees	236,324	434,953	443,469	443,469	443,469	443,469
Project 2030 Dedicated Charge	1,331,779	2,142,903	2,260,833	2,260,833	2,260,833	2,260,833
Grant Revenue	-	4,500,000	1,500,000	-	-	-
Other Resources			\$ 13,000,000	\$ 15,000,000		
Investment and Other Income	279,098	1,100,000	1,000,000	1,000,000	1,000,000	1,000,000
<b>Total Revenues</b>	<b>20,430,512</b>	<b>29,965,596</b>	<b>41,343,250</b>	<b>41,843,250</b>	<b>26,843,250</b>	<b>26,843,250</b>
<b>Expenses</b>						
Salaries and Benefits	6,395,696	6,828,041	8,220,715	9,926,375	10,561,982	11,239,119
Water Purchases	2,845,767	3,127,035	3,283,400	3,283,400	3,283,400	3,283,400
Other Operating & Maintenance Costs	3,603,266	4,387,971	6,749,687	6,461,446	7,204,814	7,888,501
Debt Service	61,786	174,338	170,788	2,027,000	2,031,000	2,024,000
Transfers to Reserves	1,731,779	2,400,000	2,900,000	2,900,000	2,900,000	2,900,000
<b>Total Expenses</b>	<b>14,638,294</b>	<b>16,917,385</b>	<b>21,324,590</b>	<b>24,598,221</b>	<b>25,981,196</b>	<b>27,335,020</b>
Operating Income before Capital Outlay	5,792,218	13,048,211	20,018,660	17,245,029	862,054	(491,770)
Capital Outlay	2,288,321	12,123,966	25,843,756	12,599,628	10,066,777	6,378,745
<b>Beginning Net Position</b>	<b>18,007,549</b>	<b>23,243,223</b>	<b>26,567,468</b>	<b>23,642,372</b>	<b>31,187,773</b>	<b>24,883,050</b>
Operating Revenues	20,430,512	29,965,596	41,343,250	41,843,250	26,843,250	26,843,250
Operating Expenses	(12,906,515)	(14,517,385)	(18,424,590)	(21,698,221)	(23,081,196)	(24,435,020)
Capital Outlay	(2,288,321)	(12,123,966)	(25,843,756)	(12,599,628)	(10,066,777)	(6,378,745)
<b>Ending Net Position</b>	<b>\$ 23,243,223</b>	<b>\$ 26,567,468</b>	<b>\$ 23,642,372</b>	<b>\$ 31,187,773</b>	<b>\$ 24,883,050</b>	<b>\$ 20,912,535</b>

This forecast reflects the easing impact of lower inflation on operating costs, though inflation remains higher than in previous years. At the same time, construction expenses are expected to rise, mainly due to increasing material costs. Together, these factors shape the District’s overall financial outlook.

The forecast continues to focus on key goals: building up the Water Main Replacement Reserve to prepare for future main replacement projects outlined in the Project 2030 Water Main Replacement Study, maintaining healthy reserve balances, and supporting the construction of the District’s groundwater wells.

## CHWD’s Budget Process

The District’s budget process begins with a Strategic Planning meeting, typically held in May through July of the preceding year. The Board adopted the current Strategic Plan for 2026 in May 2025. Guided by the 10-year financial model, the Administrative Services Department prepares the District’s revenue budget with input from department managers and supervisors across CHWD.



Meanwhile, the Engineering and Operations Departments review the 30-year Capital Improvement Plan and short-term priorities to develop the annual capital budget.

Using the goals and objectives established by the Board of Directors, CHWD leadership, and community stakeholders, each department drafts an operating budget, which is then reviewed by the General Manager. The draft budgets are presented to the Board in August or September during a study session, along with any recommended rate adjustments.

Following the presentation, the Board provides direction to District staff—either requesting revisions or authorizing continuation of the budget process. Once authorized, staff finalize the proposed budget and, if required, issue a customer notice in accordance with California Proposition 218 (Prop 218), outlining the maximum rate adjustment under consideration for a public hearing. The final budget is then presented for Board approval at a public hearing held in November or December.

### **Budget Amendments/Adjustments**

Throughout the fiscal year, adjustments to line items in the operating or capital budgets may be necessary. These adjustments can include transferring funds between operating accounts, among capital projects, or between operating and capital budgets. The General Manager has authority over budgetary control within the limits established by CHWD’s Financial Policies. Any transfers or amendments that exceed the General Manager’s authority require approval from the Board of Directors.

### **Budget Controls**

The Administrative Services Department oversees regular budget monitoring through detailed budget-to-actual analyses for both operating and capital budgets, supplemented by purchase order tracking for major expenditures. Budget to actual comparison reports

are also reviewed by the General Manager and executive team and are submitted to the Board of Directors each month.

**2026 Budget Development Schedule**

Table 3

<b>Item</b>	<b>Start</b>	<b>Due Date</b>
Strategic Planning	5/7/25	5/7/25
Departments work on Operating & Maintenance (O&M) and Capital Budgets for 2026	5/5/25	6/5/25
Finance team and Department Heads review and assemble requested information	6/9/25	6/19/25
Prepare workshop staff report and presentation Finalize slides for Workshop	6/23/25	8/17/25
Budget Workshops	8/18/25 & 9/2/25	9/2/25
Calculate and Develop 2026 Misc. Charges and Fees	7/1/25	9/15/25
Public Outreach	Mid September	Mid November
Present Proposed Budget, Rate and Fees to Board of Directors at Public Hearing	11/12/25	11/12/25

## Financial Policies

CHWD’s financial policies encompass the District’s key financial management practices that guide both operational and strategic decision-making. They also provide a framework for the Board of Directors and community stakeholders to evaluate the District’s financial performance and ensure fiscal accountability. These policies are reviewed annually to address minor updates or major shifts in financial priorities, as determined by the Board. A comprehensive review and update of the financial policies was completed in 2020, with subsequent annual revisions reflecting the most recent changes.

**Basis of Presentation – Fund Accounting:** The District’s basic financial statements are prepared in accordance with generally accepted accounting principles (GAAP) applicable to governmental entities. The Governmental Accounting Standards Board (GASB) establishes these principles as the authoritative standards-setting body for governmental accounting and financial reporting. The District is accounted for as an enterprise fund and adheres to all relevant GASB pronouncements in its accounting and financial reporting. The District’s significant accounting policies are summarized below.

**Investment Policy:** The Board has adopted an Investment Policy that complies with state law, CHWD ordinances and resolutions, principles of prudent money management, and the “prudent person” standard. The policy’s primary objectives are safety, liquidity, and yield. Currently, District funds are invested in a range of securities authorized under this policy. CHWD remains committed to maximizing returns and adapting to changing market conditions within the limits of local government investment regulations.

**Reserves Policies:** The District maintains ten reserve accounts, each governed by policies that support both daily operations and long-term capital improvement programs. These funds are dedicated to maintaining, repairing, replacing, and improving water system infrastructure. Strong reserve levels, paired with prudent financial policies, ensure flexibility to manage unexpected costs or revenue changes.

**Basis of Accounting:** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities, and deferred inflows associated with the operation of this fund are included on the balance sheet. Net position is segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. When funds are received but not earned, they are recorded as unearned revenue until earned. Earned but unbilled water services are accrued as revenue.

Water lines are constructed by private developers and then dedicated to the District, which is then responsible for their future maintenance. These lines are recorded as capital contributions when they pass inspection by the District, and are capitalized as donated pipelines at acquisition cost.

Operating revenues and expenses consist of revenues and expenses that result from the ongoing principal operations of the District. Primary operating revenues are from charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

**Fair Value Measurements:** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

**Cash and Cash Equivalents:** For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents held include bank deposits and restricted and unrestricted investments authorized by CHWD's Investment Policy.

**Restricted Assets:** Certain proceeds of the District’s long-term debt are classified as restricted investments on the balance sheet when applicable because their use is limited by applicable debt covenants.

**Investments:** Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

**Inventory:** Inventory consists primarily of materials used in the construction and maintenance of the water distribution facilities and is valued on a first-in, first-out basis.

**Prepaid Assets:** Prepaid assets consist primarily of insurance, maintenance agreements and other prepaid assets.

**Capital Assets:** Capital assets are tangible, personal property with a value of at least \$5,000 and a useful life of more than two years; any addition to the District’s infrastructure for conveyance, treatment, pumping, or production of water with a value greater than \$15,000 and a useful life of more than two years; or any construction project, building, land, or improvement upon land with a value greater than \$15,000 and a useful life greater than two years.

Capital assets are recorded at historical cost. Donated capital assets, works for art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. Self-constructed assets are recorded based on the amount of direct labor, material, and certain overhead charged to the asset construction calculated using the straight-line method, using the estimated useful lives in Table 4.

Table 4

Description	Useful Life
Pipeline and Infrastructure	20 - 40 years
Equipment and Machinery	5 - 10 years
Buildings	15 - 40 years
Well Improvements	40 years
Donated Pipelines	40 years
Improvements	40 years

**Bond Premiums and Bond Issuance Costs:** Bond premiums are deferred and amortized over the lives of the bonds. Long-term liabilities are reported net of the applicable bond premiums. Bond issuance costs are recognized as an expense in the period incurred.

## Debt Management

CHWD primarily funds capital improvement needs on a pay-as-you-go basis. However, the District has occasionally issued debt to finance major capital projects. All debt instruments are secured by net revenues generated from water system operations, and no new debt may be issued that would take priority over existing parity obligations under current covenants. While the District traditionally emphasizes pay-as-you-go financing, it is currently considering a potential debt issuance within the next 12–18 months to support key infrastructure initiatives, including the Facility Modernized and Expansion project - Workflow #6 of 2030 Water Main Replacement Project. This strategy will help ensure sufficient resources for these essential long-term investments.

**2012 Revenue Refunding Bonds:** In April 2012, the District issued \$2,275,000 of Revenue Refunding Bonds with interest rates ranging from 3.00% to 5.25%. These 2012 Revenue Refunding Bonds were issued to retire the 2003 Certificates of Participation, which were issued to finance the cost of certain capital improvements to the District’s water system. The District is required to collect rates and charges from its water system that will be sufficient to yield net revenues equal to 110% of debt service payments on any future debt issued, and to deposit the net revenues in a revenue fund pledged for such future debt service payments. Annual principal payments, ranging from \$70,000 to \$160,000 are due on February 1 through February 1, 2033, and semi- annual interest payments, ranging from \$4,200 to \$48,600 are due on February 1 and August 1, through February 1, 2033.

### Debt Service Schedule

Table 5

Fiscal Year Ending December	2012 Revenue Refunding Bonds		
	Principal	Interest	Total Payment
2025	110,000	60,588	170,588
2026	115,000	57,488	172,488
2027	120,000	51,450	171,450
2028	130,000	45,150	175,150
2029	130,000	38,325	168,325
2030-2033	600,000	80,587	680,587
<b>Total</b>	<b><u>\$1,520,000</u></b>	<b><u>\$541,350</u></b>	<b><u>\$2,061,350</u></b>

(This page intentionally left blank)