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**THE DEFERRED COMPENSATION PLAN  
FOR EMPLOYEES OF THE  
METROPOLITAN WATER RECLAMATION  
DISTRICT OF GREATER CHICAGO**

**FINANCIAL STATEMENTS**

**Chicago, Illinois**



**As of and for the Year Ended  
December 31, 2023**

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FOR EMPLOYEES OF THE  
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## TABLE OF CONTENTS

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	<u>Page</u>
Independent Auditors' Report.....	4
Management's Discussion and Analysis (MD&A) - Unaudited .....	6
Basic Financial Statements	
Statements of Fiduciary Net Position.....	10
Statements of Change in Fiduciary Net Position .....	11
Notes to the Basic Financial Statements.....	13



## Independent Auditors' Report

To the Deferred Compensation Committee of  
Metropolitan Water Reclamation District Deferred Compensation Plan

### Opinion

We have audited the accompanying financial statements of the Deferred Compensation Plan for Employees of the Metropolitan Water Reclamation District of Greater Chicago (Plan), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2023, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### 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 Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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.

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

In performing an audit in accordance with GAAS, 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 Plan'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 Plan'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 required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Report on Summarized Comparative Information**

We have previously audited the Plan's 2022 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated October 16, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Baker Tilly US, LLP*

Chicago, Illinois  
October 28, 2024

## Management's Discussion and Analysis (MD&A) - Unaudited

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*Year Ended December 31, 2023*

This section is an analysis and overview of the financial activities of the Deferred Compensation Plan for participating employees of the Metropolitan Water Reclamation District of Greater Chicago (the Plan) for the years ended December 31, 2023 and 2022. This information should be read in conjunction with the Plan financial statements and notes, which follow.

### Financial Highlights

- Plan net position increased by \$42,392,000 or 13.6% from \$311,733,000 in 2022 to \$354,125,000 in 2023. The increase is primarily due to favorable investment returns throughout 2023.
- Overall participant contributions decreased by \$215,000 or (1.5)% from \$13,958,000 in 2022 to \$13,743,000 in 2023. There was an 1.5% increase in the number of all participants which contributed to the increased payroll contributions of \$1,286,000, offset by a decrease of \$1,501,000 in capital transfers compared to 2022.
- Investment returns increased by \$94,902,000 or 202.5% from a loss of \$46,862,000 in 2022 to gains of \$48,040,000 in 2023. Investment gains/losses correlate directly with market performances of the collective mutual funds.
- Participant distributions decreased \$88,000 or (0.5)% from \$19,262,000 in 2022 to \$19,174,000 in 2023. Distributions tend to fluctuate from year to year depending upon participant elections and retirement dates.
- Fees increased by \$23,000 or 7.5%, from \$307,000 in 2022 to \$330,000 in 2023. The increase in fees is primarily attributed to Vanguard funds (namely VTMNX, VINIX, & VSCIX) resulting in the replacement of Vanguard, along with Janus Henderson funds to equivalent Fidelity Index funds effective November 21, 2023.

### Overview of Financial Statements

This discussion and analysis intends to serve as an introduction to the Plan's financial reporting which comprises the following components:

**Basic Financial Statements.** This information presents the fiduciary net position held in trust for the Plan as of December 31, 2023 and 2022. This financial information also summarizes the changes in fiduciary net position held in trust for the Plan for the years then ended.

**Notes to the Basic Financial Statements.** The notes to the financial statements provide additional information that is needed to achieve a full understanding of the data provided in the basic financial statements.

**Required Supplementary Information.** The required supplementary information consists of the management's discussion and analysis.

## Management's Discussion and Analysis (MD&A) - Unaudited

Year Ended December 31, 2023

**Fiduciary Net Position.** The statements of fiduciary net position are presented for the Plan as of December 31, 2023 and 2022. A summary of the Plan fiduciary net position is presented below:

### Condensed Statements of Plan Net Position (in thousands)

	<u>2023</u>	<u>2022</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Investments, at fair value	\$ 353,593	\$ 311,733	\$ 41,860	13.4 %
Cash-Administrative Allowance Account	139	154	(15)	(9.7)
Contributions receivable	532	—	532	
Total Assets	<u>354,264</u>	<u>311,887</u>	<u>42,377</u>	13.6
Reserve-Administrative Allowance Account	139	154	(15)	(9.7)
Total Liabilities	<u>139</u>	<u>154</u>	<u>(15)</u>	(9.7)
Net Position	<u>\$ 354,125</u>	<u>\$ 311,733</u>	<u>\$ 42,392</u>	13.6 %

**Changes in Fiduciary Net Position.** The statements of changes in fiduciary net position are presented for the years ended December 31, 2023 and 2022. These financial statements reflect the changes in the resources available to pay benefits to participants and beneficiaries.

### Condensed Statements of Changes in Fiduciary Net Position (in thousands)

	<u>2023</u>	<u>2022</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Additions:				
Investment Income (Loss)	\$ 48,040	\$ (46,862)	\$ 94,902	202.5 %
Contributions & Other Credits	13,743	13,958	(215)	(1.5)
Revenue Sharing	113	119	(6)	(5.0)
Total additions	<u>61,896</u>	<u>(32,785)</u>	<u>94,681</u>	288.8
Deductions:				
Distributions & Other Debits	19,174	19,262	(88)	(0.5)
Fees	330	307	23	7.5
Total deductions	<u>19,504</u>	<u>19,569</u>	<u>(65)</u>	(0.3)
Change in Fiduciary Net Position	<u>\$ 42,392</u>	<u>\$ (52,354)</u>	<u>\$ 94,746</u>	181.0 %



## Management's Discussion and Analysis (MD&A) - Unaudited

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Year Ended December 31, 2023

**Participant Data.** This includes any employee who has voluntarily joined the Plan and for whom an account balance is maintained under the Plan. An employee or former employee shall remain a participant until his or her account balance is zero.

	2023	2022	Participant Increase/ (Decrease)	Percentage Change
All participants with a balance greater than \$0	2,058	2,028	30	1.5 %
Active participants contributing during the year	1,199	1,171	28	2.4 %

**Future Outlook.** The purpose of the Plan is to provide an optional deferred compensation retirement savings vehicle to the employees of the Metropolitan Water Reclamation District of Greater Chicago (the District) and the Metropolitan Water Reclamation District Retirement Fund (MWRDRF). The District and the MWRDRF make no contributions to the Plan and have no plans to do so in the near future. The Plan is funded through participant salary contributions.

**Request for Information.** This financial report is designed to provide users a general overview of the Plan's finances and demonstrate the Committee's accountability. Questions that concern information provided in this report or requests for additional financial information should be addressed to Thaddeus J. Kosowski, Director of Human Resources, 100 E. Erie Street, Chicago, IL 60611.

## **BASIC FINANCIAL STATEMENTS**

## Statements of Fiduciary Net Position

As of December 31, 2023 and 2022

(in thousands of dollars)

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Mutual Funds	\$ 273,962	\$ 227,683
Stable Value Fund	75,533	80,990
Self-directed Brokerage Accounts	4,098	3,060
Cash-Administrative Allowance Account	139	154
Contributions receivable	532	—
Total assets	<u>354,264</u>	<u>311,887</u>
<b>Liabilities</b>		
Reserve-Administrative Allowance Account	<u>139</u>	<u>154</u>
Total liabilities	<u>139</u>	<u>154</u>
<b>Net position restricted for participant benefits</b>	<u><u>\$ 354,125</u></u>	<u><u>\$ 311,733</u></u>

See accompanying notes to the basic financial statements

## Statements of Changes in Fiduciary Net Position

For the years ended December 31, 2023 and 2022

*(in thousands of dollars)*

	<u>2023</u>	<u>2022</u>
<b>Additions</b>		
Investment Income (Loss)	\$ 48,040	\$ (46,862)
Contributions & Other Credits	13,743	13,958
Revenue Sharing	113	119
Total additions	<u>61,896</u>	<u>(32,785)</u>
<b>Deductions</b>		
Distributions & Other Debits	19,174	19,262
Fees	330	307
Total deductions	<u>19,504</u>	<u>19,569</u>
Changes in fiduciary net position	<u>42,392</u>	<u>(52,354)</u>
Net position restricted for participant benefits		
Beginning of year	311,733	364,087
End of year	<u>\$ 354,125</u>	<u>\$ 311,733</u>

See accompanying notes to the basic financial statements

**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

## Notes to the Basic Financial Statements

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<b>Index to Notes</b>	
<b>Note</b>	<b>Page Number</b>
1. Summary of Significant Accounting Policies .....	14
a. Basis of Accounting .....	14
b. Management’s Use of Estimates .....	14
c. Investments .....	14
d. Payment of Benefits .....	14
e. Risks and Uncertainties .....	14
2. Description of the Plan .....	14
a. Contributions .....	15
b. Participant Accounts .....	15
c. Vesting .....	16
d. Payment of Benefits .....	16
e. Administrative and Asset Charges .....	16
3. Investments .....	17
a. Investment Options .....	18
b. Fair Value Measurement .....	19
c. Interest Rate Risk .....	20
d. Credit Risk .....	21
e. Custodial Credit Risk .....	21
f. Concentration of Credit Risk .....	21
g. Foreign Currency Risk .....	21
4. Related Parties .....	22
5. Plan Termination .....	22
6. Tax Status .....	22
7. Subsequent Events .....	22

## Notes to the Basic Financial Statements

Year ended December 31, 2023

### 1. Summary of Significant Accounting Policies

The Metropolitan Water Reclamation District of Greater Chicago Deferred Compensation Plan (the Plan) is a defined contribution plan established in accordance with and subject to Internal Revenue Code Section 457(b).

The accounting policies of the Plan conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

- a. **Basis of Accounting.** The accompanying financial statements of the Plan have been prepared on the accrual basis of accounting.
- b. **Management's Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.
- c. **Investments.** Investments are stated at fair value. Mutual funds are valued at quoted market prices. Purchases and sales of mutual fund investments are recorded on a trade date basis.

Interest income is recorded as earned on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the gains and losses on investments bought and sold as well as held during the year. Variable earning investment income consists of dividends, interest, and realized and unrealized gains and losses attributable to the mutual funds. Earnings are accrued to the individual participants' accounts on a daily basis, based upon the investment performance of the specific options selected.

Variable Annuity Life Insurance Company ("VALIC"), an affiliate of Corebridge, receives 12b-1 fees and recordkeeping fees from mutual funds or their affiliates for administrative and shareholder services. The 12b-1 fees and recordkeeping fees received from the fund families are deposited into participant accounts. VALIC collects an additional fee from certain funds on behalf of the District and deposits such amounts into the Plan Expense Account.

- d. **Payment of Benefits.** Benefits are recorded when paid or made available to the participant or beneficiary.
- e. **Risks and Uncertainties.** The Plan invests in various investment securities. These securities are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain values of investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the financial statements. Since all investments are participant directed, all risks exist at the participant level. Each individual within the Plan has the ability to direct their investments and has responsibility for managing their exposure to fair value loss.

### 2. Description of the Plan

The primary purpose of this plan is to provide retirement income and other deferred benefits to the participating employees of the District and the MWRDRF in accordance with the provisions of Section 457 of the Code. The Plan is intended to comply with Code Section 457 (b) and thereby to be exempt from Code Section 409A, and shall be interpreted in accordance with that intent.

The District, through its Board of Commissioners, serves as Trustee and fiduciary for the Plan. The Board of Commissioners has established a Deferred Compensation Committee (Committee) in accordance with the Plan document. The Committee consists of the Chairman of the Committee on Finance, the Treasurer, and the Director

## Notes to the Basic Financial Statements

Year ended December 31, 2023

of Human Resources. The Committee is the primary fiduciary of the Plan, with authority to interpret and oversee the administration of the Plan. This responsibility includes the recommendation of a plan administrator and investment advisor for the Plan and ongoing oversight of these providers to ensure the Plan is administered in accordance with the Plan document and the Investment Policy.

This Plan shall be an agreement solely between the employer and participating employees. The Plan and Trust forming a part hereof is established and shall be maintained for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Trust shall revert to the employer or be used for or diverted to purposes other than the exclusive benefit of participants and their beneficiaries.

This financial report is designed to provide users a general overview of the Plan's finances and demonstrate the Committee's accountability. Questions that concern information provided in this report or requests for additional financial information should be addressed to Thaddeus J. Kosowski, Director of Human Resources, 100 E. Erie Street, Chicago, IL 60611.

- a. Contributions.** Under the Plan provisions, eligible employees of the District and the District Retirement Fund may contribute to the Plan through payroll deductions. Eligible employees are individuals who perform services for the District and who complete and submit participation agreements. In accordance with Section 457 of the Internal Revenue Code (IRC), the Plan limits the amount of an individual's annual contributions to an amount not to exceed the lesser of (i) \$22,500 for 2023 and \$20,500 for 2022 or (ii) 100% of the individual's compensation within the meaning of IRC Section 415(c)(3). Individuals age 50 or over may make additional "catch-up" contributions of \$7,500 in 2023 and \$6,500 in 2022. Individuals who are within three years of normal retirement age, as defined in the Plan may make additional catch-up contributions up to the lesser of \$22,500 in 2023 or the basic annual limit plus the amount of the basic limit not used in prior years (only allowed if not using age 50 or over catch-up contributions). Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. VALIC, the Plan's third party administrator, assists individual participants in determining eligible contribution amounts under the catch-up provisions. The District does not make any contributions to the Plan.
- b. Participant Accounts.** At December 31, 2023 and December 31, 2022, participation in the plan was as follows:

	<u>2023</u>	<u>2022</u>
All participants with a balance greater than \$0	2,058	2,028
Active participants contributing during the year	1,199	1,171

Under provisions of the Small Business Job Protection Act of 1996 ("SBJPA"), which became effective for plan years beginning after December 31, 1996, assets of IRC Section 457 plans must be held in a trust, custodial account, or annuity contract for the exclusive benefit of employees and beneficiaries. As of December 31, 2023, the Plan met the requirements of the SBJPA.

Each participant's account is credited with the participant's salary contributions, rollover contributions, and earnings (net of administrative and investment expenses and other Plan expenses, as applicable).

Participants may direct the investment of their account balances and have the following investment options to choose from:

- Stable Value Account, which invests primarily in fixed income securities and investment contracts.



## Notes to the Basic Financial Statements

Year ended December 31, 2023

- Variable earnings investment accounts consist of mutual fund shares held in the District's Deferred Compensation Plan Trust for the exclusive benefit of the participants and beneficiaries. Contributions invested in mutual funds represent shares of a registered investment company that invests in corporate bonds, equities, U.S. Government securities, and other investments as provided in mutual fund prospectus and other disclosure documents.
- Self-directed brokerage accounts, known as PCRA (Personal Choice Retirement Accounts), through Charles Schwab & Company, Inc., represent another option allowed for participants. Prior to a participant's enrollment in PCRA, a minimum balance of \$5,000 is required in non-PCRA investments. Once the minimum balance requirement is met, the participant may allocate up to 90% of future contributions to each Plan contribution account to PCRA.

Participants may amend their investment allocation at any time in accordance with the investment contract provisions.

- c. **Vesting.** Participants are immediately 100% vested in their salary reduction contributions and rollover contributions plus earnings thereon.
- d. **Payment of Benefits.** Employees or beneficiaries participating in the Plan may generally withdraw the value of their Plan accounts upon termination of employment, retirement, death, or unforeseen emergency. Participants may select various payout options, which include lump sum, partial lump sum, installment payments, or an annuity.

In accordance with the Plan's governing documents, a participant's entire interest must be distributed, or begin to be distributed, no later than the participant's automatic distribution date as required by the Plan and in accordance with section 401(a)(9) of the IRS Code, including the minimum incidental distribution requirement of Section 401(a)(9)(G) of the Code, and the Income Tax Regulation thereunder. Distributions to participants are recorded at the time withdrawals are made from participant accounts.

Participants should refer to the Plan document for a more complete description of the Plan's provisions.

- e. **Administrative and Asset Charges.** Administrative fees are paid out of a separate reserve account. Administrative fees include the costs of maintaining participant-level and aggregate plan records, processing contributions and distributions to participant accounts, making available the daily valuations of participant accounts, enrolling participants into the plan, providing contribution limit testing, providing quarterly plan statements to participants, preparing annual reports on the financial status of the plan, providing investment education seminars and materials, providing on-site financial advisors to carryout registered broker-dealer services, and collecting on behalf of employer from participant's accounts an additional fee in an amount equal to an effective annual rate for each applicable fund.

The Plan assesses a gross annual administrative service fee on all Plan assets to cover expenses for administering the Plan. VALIC is the Plan Administrator and was entitled to receive 0.025% (2.5 one hundredths of a percent) multiplied by the dollar amount of the assets in the Plan and shall be paid in quarterly installments.

## **Notes to the Basic Financial Statements**

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*Year ended December 31, 2023*

### **3. Investments**

The investments which the Plan may offer are governed by the Metropolitan Water Reclamation District of Greater Chicago Deferred Compensation Plan Investment Policy (revised June 4, 2015). The investment options available under the Plan cover a broad range of investments appropriate for a retirement savings program. The Plan offers a variety of investment categories, which have varying return and volatility characteristics. The investment option categories include the following: (1) Stability of Principal/Stable Value Option; (2) Fixed Income; (3) Balanced; (4) U.S. Equity; (5) International Equity; (6) Lifecycle Retirement Funds; and (7) Self-Directed Brokerage Account.

## Notes to the Basic Financial Statements

Year ended December 31, 2023

- a. **Investment Options.** The following table lists the investment options available to participants and the value of each option as of December 31, 2023.

	<u>2023</u>
American Century Small Cap Value Fund Investor Cla	\$ 3,893,621
American Funds Europacific Growth Fund Class A	18,226,681
Brown Advisory Small-Cap Growth Fund	5,505,499
Dodge & Cox Income Fund	17,221,261
Dodge & Cox International Stock Fund	288,771
Fidelity 500 Index Fund	46,838,629
Fidelity Mid Cap Index Fund	17,602,213
Fidelity International Index Fund	11,645,987
Fidelity Small Cap Index Fund	13,214,728
Fidelity Blue Chip Growth K6 Fund	24,210,134
JPMorgan Mid Cap Value Fund Class I	6,304,414
MassMutual Select Mid Cap Growth Fund Class I	5,130,172
T. Rowe Price Retirement 2005 Fund	8,556
T. Rowe Price Retirement 2010 Fund	451,676
T. Rowe Price Retirement 2015 Fund	651,642
T. Rowe Price Retirement 2020 Fund	1,710,172
T. Rowe Price Retirement 2025 Fund	2,320,398
T. Rowe Price Retirement 2030 Fund	3,926,802
T. Rowe Price Retirement 2035 Fund	1,000,263
T. Rowe Price Retirement 2040 Fund	1,804,221
T. Rowe Price Retirement 2045 Fund	1,297,797
T. Rowe Price Retirement 2050 Fund	977,700
T. Rowe Price Retirement 2055 Fund	980,522
T. Rowe Price Retirement 2060 Fund	—
T. Rowe Price Retirement 2065 Fund	—
T. Rowe Price Retirement Balanced Fund	800,291
Vanguard Wellington Fund Admiral Shares	40,812,636
Vanguard Windsor II Fund Admiral Shares	47,137,148
Guaranteed Income Fund	75,532,429
Self-Directed Brokerage Account	4,098,181
	<u>\$ 353,592,544</u>

The Plan offers 30 investment options consisting of 28 mutual fund investment options (including 14 target date funds), one self-directed brokerage fund, and a stable value fund as of December 31, 2023. The Plan's investments (including gains and losses on investments bought and sold, as well as income received on investments held during the year) generated net investment gains of \$48.0 million or an increase of 15.4% in 2023.

## Notes to the Basic Financial Statements

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Year ended December 31, 2023

- b. Fair Value Measurement.** The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Investment valuations are as of December 31, 2023. The values of the Plan's investments may have changed significantly after year end as the result of investment markets. The three levels of the fair value hierarchy under authoritative guidance are described as follows:

**Level 1** Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the plan has the ability to access.

**Level 2** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There were no changes to the methodologies during the year ended December 31, 2023.

*Mutual funds:* Valued at market prices for similar assets in active markets.

*Self-directed brokerage accounts:* The fair values of the mutual funds and money market funds are based on the quoted Net Asset Value (NAV) of the shares held by the Plan at year end.

*Stable value fund:* Portfolio of investments, primarily bonds, that are insured to protect the participants from market declines are also valued at NAV.

## Notes to the Basic Financial Statements

Year ended December 31, 2023

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 31, 2023:

Investment Type	December 31, 2023			Total
	Level 1	Level 2	Level 3	
Mutual funds - other than bond funds	\$ 256,740,673	—	—	\$ 256,740,673
Mutual funds - bond funds	17,221,261	—	—	17,221,261
Total investments measured at fair value	<u>\$ 273,961,934</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 273,961,934</u>

- c. **Interest Rate Risk.** Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Some of the investment funds available in the Plan invest in debt instruments that are subject to interest rate risk. The schedule presented below provides an indication of the interest rate risk associated with the primary funds holding debt obligations as of December 31, 2023.

Investment Type	Maturity	December 31, 2023	
Mutual funds - Dodge & Cox Income Fund	0-5 years	\$ 4,064,218	23.6 %
	5-10 years	9,230,596	53.6
	10-15 years	1,067,718	6.2
	15-20 years	516,638	3.0
	20-25 years	292,761	1.7
	25-30 years	1,601,577	9.3
	30 and Over	447,753	2.6
		<u>\$ 17,221,261</u>	<u>100.0 %</u>

## Notes to the Basic Financial Statements

Year ended December 31, 2023

- d. **Credit Risk** exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Plan investment policy does not specifically address the quality rating of the investments. Each participant is responsible for determining the risks and commensurate returns of their portfolio. The plan investment options consist of diversified mutual funds. The mutual funds have not been rated by any nationally recognized rating agency. However, certain underlying securities of the funds contain this related information, but the funds themselves do not have direct credit risk.

Investment Type	Rating	2023	
Mutual funds - Dodge & Cox Income Fund	US Treasury/AAA	\$ 413,310	2.4 %
	AA	10,057,217	58.4
	A	1,429,365	8.3
	BBB	4,167,545	24.2
	BB	602,744	3.5
	B	551,080	3.2
		<u>\$ 17,221,261</u>	<u>100.0 %</u>

- e. **Custodial Credit Risk** is the risk that, in the event of a failure of the counterparty, the Plan will not be able to recover its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Plan's name.

The Plan investments are evidenced by mutual fund shares. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, investments in these funds should be disclosed but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The Plan's investment is the mutual fund share, not the underlying security. Therefore, investments in open-end mutual funds are not subject to custodial credit risk disclosures.

- f. **Concentration of Credit Risk** Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. If 5% or more of the total assets of the Plan are invested with one issuer then the investment is considered to have concentration risk. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds or pools are excluded from concentration of credit risk requirements. The Plan investment options consist of diversified mutual funds and therefore do not have concentration risk.
- g. **Foreign Currency Risk** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan's diversified selection of funds encourages the participants to employ diversification, asset allocation, and quality strategies to minimize risks. Each participant is responsible for determining the risks and commensurate returns of their portfolio.

## **Notes to the Basic Financial Statements**

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*Year ended December 31, 2023*

### **4. Related Parties**

All members of the Deferred Compensation Committee are participants in the Plan. However, no fees are paid to these participants.

VALIC provides certain administrative services to the Plan pursuant to an Administrative Services Agreement between the Plan and VALIC. VALIC receives revenue from mutual fund service providers for services VALIC provides to the funds. This revenue is credited back to accounts of those participants invested in any investment that provides such revenue.

### **5. Plan Termination**

The District may, by written action of its Board of Commissioners or any delegate of that Board for this purpose, at any time amend or terminate this Plan. In the event of termination, assets of the Plan shall be distributed to Participants and surviving Beneficiaries as soon as administratively practicable following termination of the Plan. Alternatively, assets of the Plan may be transferred to an eligible deferred compensation plan maintained by another eligible governmental employer within the same State if (i) all assets held and benefit obligations of the Plan are transferred; (ii) the receiving plan provides for the receipt of transfers; (iii) the Participants and Beneficiaries whose deferred amounts are being transferred will have an amount credited to their respective behalves immediately after the transfer at least equal to the deferred amount credited to them, respectively, immediately before the transfer; and such other conditions are met as may apply under applicable law and the terms of the two respective plans.

Except as may be required to maintain the status of the Plan as an eligible deferred compensation plan under Section 457(b) of the Code or to comply with other applicable laws, no amendment or termination of the Plan shall divest any participant of any rights with respect to deferred compensation credited to his or her account before the date of the amendment or termination.

### **6. Tax Status**

The Plan is reviewed by legal counsel to ensure conformity with IRC Section 457. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or beneficiary.

The plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC and therefore believes the Plan is qualified and the related trust is tax exempt.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Plan and recognize a liability if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

### **7. Subsequent Events**

The Plan has evaluated subsequent events through October 28, 2024, which is the date that the financial statements were approved and available to be issued, for events requiring recording or disclosure in the Plan's financial statements.