# MURPHYS SANITARY DISTRICT

## INDEPENDENT AUDITOR'S REPORT
## AND
## FINANCIAL STATEMENTS

## JUNE 30, 2023

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Murphys Sanitary District
Murphys, California

## Report on the Financial Statements

We have audited the accompanying financial statements of the Murphys Sanitary District (District), as of and for the year ended June 30, 2023, 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 financial position of the District as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Auditor's 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.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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.

**Other Matters**

Required Supplementary Information

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

Accounting principles generally accepted in the United State of America require that the District's Schedule of Proportionate Share of Net Pension Liability and Contributions, on pages 23 - 24 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Government 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 and the other auditors 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 September 8, 2023 on our consideration of the Murphys Sanitary 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 the 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.

September 8, 2023

# MURPHYS SANITARY DISTRICT

## STATEMENT OF NET POSITION
## JUNE 30, 2023

| | |
|---|---|
| **ASSETS** | |
| **Current assets** | |
| Cash and investments | $ 2,454,950 |
| Accounts receivable | 5,020 |
| Total current assets | 2,459,970 |
| | |
| **Non-current assets** | |
| Restricted cash and investments | 43,670 |
| Capital Assets | |
| Property, plant, and equipment - net of accumulated depreciation | 8,864,024 |
| Total non-current assets | 8,907,694 |
| | |
| Total assets | 11,367,664 |
| | |
| **DEFERRED OUTFLOWS OF RESOURCES** | 167,623 |
| | |
| **LIABILITIES** | |
| **Current liabilities** | |
| Accounts payable and accrued expenses | 46,383 |
| Interest payable | 2,862 |
| Current portion of long-term debt | 26,500 |
| Total current liabilities | 75,745 |
| | |
| **Non-current liabilities** | |
| Compensated absences | 31,160 |
| Long-term debt | 927,401 |
| Net pension liability | 58,611 |
| Total non-current liabilities | 1,017,172 |
| | |
| Total liabilities | 1,092,917 |
| | |
| **DEFERRED INFLOWS OF RESOURCES** | 141,887 |
| | |
| **NET POSITION** | |
| Net investment in capital assets | 7,907,261 |
| Restricted for debt service | 43,670 |
| Unrestricted | 2,349,552 |
| Total net position | $ 10,300,484 |

# MURPHYS SANITARY DISTRICT

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
## YEAR ENDED JUNE 30, 2023

| | |
|---|---|
| **Operating Revenue** | |
| Service charges | $ 898,922 |
| Connections fees | 60,000 |
| Total operating revenue | 958,922 |
| **Operating Expense** | |
| Salaries and wages | 409,500 |
| Employee benefits | 324,122 |
| Professional services | 25,462 |
| Operating supplies | 34,947 |
| Permits | 38,206 |
| Repairs and maintenance | 123,708 |
| Monitoring | 38,365 |
| Office | 17,701 |
| Utilities | 84,926 |
| Insurance | 29,812 |
| Communications | 14,410 |
| Memberships and publications | 13,461 |
| Depreciation | 278,905 |
| Total operating expense | 1,433,526 |
| Operating income/(loss) | (474,604) |
| **Non-operating Revenue/(Expense)** | |
| Property taxes | 149,306 |
| Investment Income | 57,249 |
| Other income | 16,585 |
| Interest expense | (17,561) |
| Total non-operating revenue/(expense) | 205,579 |
| **Change in Net Position** | (269,025) |
| **Net Position** | |
| Beginning of year | 10,569,509 |
| End of year | $ 10,300,484 |

# MURPHYS SANITARY DISTRICT

## STATEMENT OF CASH FLOWS
## YEAR ENDED JUNE 30, 2023

| | | |
|---|---|---|
| **Operating Activities** | | |
| Receipts from customers and users | $ | 953,902 |
| Payments to suppliers for goods and services | | (386,657) |
| Payments to employees for services | | (593,971) |
| Net cash used in operating activities | | (26,726) |
| **Non-capital Financing Activities** | | |
| Property taxes collected | | 149,306 |
| Other income | | 16,585 |
| Net cash provided by non-capital financing activities | | 165,891 |
| **Capital and Related Financing Activities** | | |
| Principal paid on long-term debt | | (26,032) |
| Interest paid on long-term debt | | (17,638) |
| Acquisition of capital assets | | (39,196) |
| Net cash used in capital and related financing activities | | (82,866) |
| **Investing Activities** | | |
| Interest received | | 60,865 |
| **Net Increase/(Decrease) in Cash and Investments** | | 117,163 |
| **Cash and Investments** | | |
| Beginning of year | | 2,381,457 |
| End of year | $ | 2,498,620 |
| **Cash Flows from Operating Activities** | | |
| Operating income (loss) | $ | (474,604) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | | 278,905 |
| (Increase) Decrease in deferred outflows of resources | | 63,747 |
| Increase (Decrease) in account payables and accrued expenses | | 34,342 |
| Increase (Decrease) in deferred inflows of resources | | 82,718 |
| Increase (Decrease) in compensated absences | | 1,662 |
| Increase (Decrease) in net pension liability | | (8,476) |
| **Net Cash Used in Operating Activities** | $ | (26,726) |

## Note 1 – Summary of Significant Accounting Policies

The financial statements of the Murphys Sanitary District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below:

### Reporting Entity

The District was established January 5, 1960, for the purpose of constructing and operating a system of sewage services to property within the District. Operations are conducted under provisions of the Community Services District Laws.

### Basis of Accounting

The District accounts for its operations in enterprise funds using the economic resources measurement focus and the accrual basis of accounting. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific government activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sewer service. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### Financial Statement Amounts

*Cash and Investments* - Cash and investments represent the District's cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

Investments of the pool include only those investments authorized by the California Government Code such as, United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in the State of California Local Agency Investment Fund. Investments are stated at fair value.

*Accounts Receivable* – Billings for sewer services are sent monthly and are reflected on the accrual basis of accounting. Delinquent accounts are submitted to the Calaveras County and are attached to the County tax rolls.

**Note 1 – Summary of Significant Accounting Policies (Continued)**

*Capital Assets* – Capital assets are defined by the government as assets with an initial individual cost of more than $2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

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

Capital assets in service are depreciated using the straight-line method over the following estimated useful lives:

| | Years |
|---|---|
| Sewer Treatment | 25 - 50 |
| Collection | 25 - 50 |
| Equipment | 5 - 10 |

*Compensated Absences* – The District allows employees to accumulate unused vacation leave to a maximum of twice their annual vacation rate. Upon termination, accumulated vacation that was not taken will be paid to the employee. Sick leave is not paid upon termination but will be paid only upon illness while in the employment of the District.

Vested or accumulated vacation leave time that is expected to be paid with expendable available financial resources is recorded as an expense and liability as the benefits accrue.

*Unearned Revenues* – The District typically records unearned revenues related to customer deposits received but not earned.

*Pension Plan* – All full-time District employees are members of the State of California Public Employees' Retirement System. The District's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of July 1 by the System's actuary. 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 District’s California Public Employee Retirement System (CalPERS) plan and additions to/deduction from the Plan’s 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.

## Note 1 – Summary of Significant Accounting Policies (Continued)

*Long-Term Obligations* – Long-term debt and other long-term obligations are reported as liabilities in the Proprietary Fund Statement of Net Position. Debt principal payments are reported as decreases in the balance of the liability on the Statement of Net Position.

*Net Position* – The financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

- Restricted Net Position – This category presents external restrictions on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- Unrestricted Net Position – This category represents net position of the District not restricted for any project or other purpose.

*Revenues and Expenses* – The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principle operating revenues of the District are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Property Tax* – Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Calaveras bills and collects the taxes for the District. Tax revenues are recognized by the District when billed.

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

## Note 2 – Cash and Investments

Cash and investments as of June 30, 2023 are classified in the accompanying financial statements as follows:

| | |
|---|---|
| Statement of Net Position: | |
| Cash and Investments | $ 2,454,950 |
| Restricted cash and investments | 43,670 |
| Total Cash and Investments | $ 2,498,620 |

## Note 2 – Cash and Investments (Continued)

Cash and investments as of June 30, 2023 consist of the following:

| | | |
|---|---|---|
| Cash on hand | $ | 170 |
| Deposits with financial institutions | | 747,237 |
| Certificates of Deposit | | 471,246 |
| Money Market Funds and Instruments | | 812,599 |
| Local Agency Investment Fund | | 48,066 |
| California CLASS Local Government Investment Pool | | 419,302 |
| Total Cash and Investments | $ | 2,498,620 |

### Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows: Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date; Level 2 Inputs to valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly; 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 a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District's investments' fair value measurements are as follows at June 30, 2023:

| Investment Type | Fair Value | Fair Value Measurements Level 2 Inputs |
|---|---|---|
| Certificates of Deposit | $ 471,246 | $ 471,246 |
| Money Market Funds and Instruments | 812,599 | 812,599 |
| Local Agency Investment Fund | 48,066 | 48,066 |
| CLASS Prime Local Government Investment Pool | 419,302 | 419,302 |
| Total | $ 1,751,213 | $ 1,751,213 |

## Note 2 – Cash and Investments (Continued)

### Investments Authorized by the District

The California Government Code allows the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District. The following also identifies certain provisions of the District and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. The following table identifies the District's investments by type as authorized by the California Government Code:

| Investement Type | Maximum Maturity | Maximum Specified % of Portfolio | Minimum Quality Requirements | Government Code Sections |
|---|---|---|---|---|
| Non-negotiable Certificates of Deposit | 5 years | None | None | 53630 et seq. |
| Money Market Mutual Funds | N/A | 20% | Multiple[1] | 53601(l) and 53601.6(b) |
| Joint Powers Authority Pool | N/A | None | Multiple[2] | 53601(p) |
| Local Agency Investment Fund (LAIF) | N/A | None | None | 16429.1 |

[1] A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 millin, and has at least five years' experience investing.

[2] A joint powers authority pool must retain an investement advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 millin, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).

### 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. The following table shows the maturity date of each investment as of June 30, 2023:

| Investment Type | Total | Maturity Date |
|---|---|---|
| Certificates of Deposit | $ 471,246 | 7/13/23-12/21/23 |
| Money Market Funds and Instruments | 812,599 | 9/25/23-6/21/24 |
| Local Agency Investment Fund | 48,066 | N/A |
| CLASS Prime Local Government Investment Pool | 419,302 | N/A |
| Total | $ 1,751,213 | |

## Note 2 – Cash and Investments (Continued)

### Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each investment type:

| | | Rating as of Year-End | |
|---|---|---|---|
| Investment Type | Total | AAAm | Not Rated |
| Certificates of Deposit | $ 471,246 | $ - | $ 471,246 |
| Money Market Funds and Instruments | 812,599 | - | 812,599 |
| Local Agency Investment Fund | 48,066 | - | 48,066 |
| CLASS Prime Local Government Investment Pool | 419,302 | 419,302 | - |
| Total | $ 1,751,213 | $ 419,302 | $ 1,331,911 |

### 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 were no investments in any one issuer beyond maximums stipulated by the California Government Code.

### Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The 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, 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 market 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The District deposits are not secured with collateral securities by the financial institution holding its deposits. Deposits are insured by the Federal Deposit Insurance Corporation up to $250,000. The District deposits at times exceed insured amounts due to temporary transfers to/from investment accounts. Management does not belief this temporary situation poses a significant risk.

**Note 2 – Cash and Investments (Continued)**

The custodial risk for investments is the risk that, in the event of the failure of the counterparty 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 investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Certificates of Deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor per ownership category but are not protected by the Securities Investor Protection Corporation; Money Market Funds (and Instruments) are neither insured nor guaranteed by the FDIC or any other government agency; Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

**Investment in State Investment Pool –** 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.

**California CLASS Prime Fund Local Government Investment Pool (CLASS Prime)–** The California Cooperative Liquid Assets Securities System, doing business as the "California CLASS", is a California joint powers authority created pursuant to Title 1, Division 7, Chapter 5 of the California Government Code. As a joint powers authority, California CLASS provides professionally managed pooled investment programs for Participants. California CLASS is governed by a Board of Trustees and is sponsored by the California Special Districts Association (CSDA) and the League of California Cities (Cal Cities and together with CSDA, the Sponsors). The District is a voluntary participant in CLASS Prime, CLASS Prime is a California CLASS investment pool that provides public agencies the opportunity to invest funds on a cooperative basis in rated pools that are managed in accordance with state law with the primary objectives of offering participants safety, daily and next-day liquidity, and optimized returns. California GLASS is managed as a stable NAV pool but does not meet all the specific criteria outlined in GASB 79 paragraph 4, therefore participants report their investments in the pool at fair value, provided by California CLASS.

### Note 3 – Property, Plant and Equipment

The detail of property, plant and equipment at June 30, is as follows:

| | Balance July 1, 2022 | Additions | Retirements | Balance June 30, 2023 |
|---|---|---|---|---|
| Capital assets, not being depreciated | | | | |
| Land | $ 274,091 | $ - | $ - | $ 274,091 |
| Construction in progress | 22,885 | - | - | 22,885 |
| Total capital assets, not being depreciated | 296,976 | - | - | 296,976 |
| Capital assets, being depreciated | | | | |
| Treatment plant | 6,942,123 | - | - | 6,942,123 |
| Utility system - infrastructure | 2,028,797 | - | - | 2,028,797 |
| Donated property | 1,440,389 | - | - | 1,440,389 |
| Buildings and equipment | 574,861 | 39,196 | - | 614,057 |
| Total capital assets, being depreciated | 10,986,170 | 39,196 | - | 11,025,366 |
| Less accumulated depreciation for | | | | |
| Treatment plant | (834,051) | (176,803) | - | (1,010,854) |
| Utility system - infrastructure | (740,171) | (47,441) | - | (787,612) |
| Donated property | (479,320) | (28,808) | - | (508,128) |
| Buildings and equipment | (125,871) | (25,853) | - | (151,724) |
| Total accumulated depreciation | (2,179,413) | (278,905) | - | (2,458,318) |
| Total capital assets, being depreciated, net | 8,806,757 | (239,709) | - | 8,567,048 |
| Total capital assets, net | $ 9,103,733 | $ (239,709) | $ - | $ 8,864,024 |

## Note 4 – Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports $167,623 in deferred outflows related to net pension liability. See Note 5 for more details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports $141,887 in deferred inflows related to net pension liability. See Note 5 for more details.

## Note 5 – Defined Benefit Pension Plan

### Plan Description

The District's defined benefit pension plan, the California Public Employees' Retirement System (CalPERS), provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. CalPERS is part of the Public Agency portion of the CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

### Funding Policy

Active plan members in the District's defined pension plan are required to contribute 6.75%-7% of their annual salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2023 was 8.63% for Miscellaneous Classic and 7.47% for Miscellaneous PEPRA. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

**Note 5 – Defined Benefit Pension Plan (continued)**

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

| | Miscellaneous Classic | Miscellaneous PEPRA |
|---|---|---|
| Hire Date | Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit Formula | 2.0% at 60; maximum 2% COLA | 2.0% at 62; maximum 2% COLA |
| Benefit Vesting Schedule | 5 years service | 5 years service |
| Benefit Payments | monthly for life | monthly for life |
| Retirement Age | 60 | 60 |
| Monthly Benefits, as a % of Eligible Compensation | 2.00% | 2.00% |
| Required Employee Contribution Rates | 7.00% | 6.75% |
| Required Employer Contribution Rates | 8.63% | 7.47% |

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 July 1 following the notice of a change in the rate. Funding contributions for both Plans are 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. The difference between the actuarially determined rate and the contribution rate of employees.

The City's contributions to the plan recognized as part of the pension expense for the year ended June 30, 2023 were $210,781.

As of June 30, 2023, the District reported net pension liability for its proportionate share of the net pension liability of each Plan as follows:

| | Proportionate Share of Net Pension Liability |
|---|---|
| Miscellaneous | $ 58,611 |

**Note 5 – Defined Benefit Pension Plan (Continued)**

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

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of each Plan is measured as of June 30, 2022, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. The 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 plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2022 and 2023 was as follows:

| | Miscellaneous |
|---|---|
| Proportion – June 30, 2022 | 0.00353% |
| Proportion – June 30, 2023 | 0.00125% |
| Change – Increase/(Decrease) | -0.00228% |

For the year ended June 30, 2023, the District recognized pension expense of $166,113. At June 30, 2023, 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 | $ 28,125 | $ - |
| Change in employer's proportion | 2,881 | (141,098) |
| Changes of assumptions | 6,006 | - |
| Differences between employer's contributions and proportionate share of contributions | 118,698 | - |
| Difference between expected and actual experience | 1,177 | (789) |
| Differences between projected and actual investment earnings | 10,736 | - |
| Total | $ 167,623 | $ (141,887) |

**Note 5 – Defined Benefit Pension Plan (Continued)**

$28,125 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended June 30 | | |
|---|---|---|
| 2024 | $ | (415) |
| 2025 | | (4,111) |
| 2026 | | (4,430) |
| 2027 | | 6,567 |

**Actuarial Methods and Assumptions** – The collective total pension liability for the June 30, 2022 measurement period was determined by an actuarial valuation as of June 30, 2021, with update procedures used to roll forward the total pension liability to June 30, 2022. The collective total pension liability was based on the following assumptions:

| | |
|---|---|
| Valuation Date | June 30, 2021 |
| Measurement Date | June 30, 2022 |
| Actuarial Cost Method | Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68 |
| Actuarial Assumptions: | |
| Discount Rate | 6.90% |
| Inflation | 2.30% |
| Payroll Growth | 2.30% |
| Salary Increases | Varies by Entry Age and Service |
| Mortality Rate Table[1] | Derived using CalPERS' Membership Date for all Funds |
| Post Retirement Benefit Increase | Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies |

[1] The mortality table 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.

### Note 5 – Defined Benefit Pension Plan (Continued)

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

**Discount rate –** The discount rate used to measure the total pension liability for PERF C 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.

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 rate of returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 rounded 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 adjusted to account for assumed administrative expenses.

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2022.

**Note 5 – Defined Benefit Pension Plan (Continued)**

The table below reflects long-term expected real rates 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. The geometric rates of return are net of administrative expenses.

| Asset Class[1] | Assumed Asset Allocation | Real Return Years 1-10[1,2] |
|---|---|---|
| Global equity - cap-weighted | 30% | 4.45% |
| Global equity non-cap-weighted | 12% | 3.84% |
| Private Equity | 13% | 7.28% |
| Treasury | 5% | 0.27% |
| Mortgage-backed Securities | 5% | 0.50% |
| Investment Grade Corporates | 10% | 1.56% |
| High Yield | 5% | 2.27% |
| Emerging Market Debt | 5% | 2.48% |
| Private Debt | 5% | 3.57% |
| Real assets | 15% | 3.21% |
| Leverage | -5% | -0.59% |
| Total | 100% | |

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

[2] Figures are based on the 2021-22 Asset Liability Management study.

### Note 5 – Defined Benefit Pension Plan (Continued)

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following presents the District's proportionate share of the net pension liability for each Plan, calculating using the discount rate of each Plan, 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%) or 1-percentage point higher (7.90%) than the current rate:

| | 1% Decrease (5.90%) | Current Discount Rate (6.90%) | 1% Increase (7.90%) |
|---|---|---|---|
| Net Pension Liability | $ 204,226 | $ 58,611 | $ (61,195) |

**Pension Plan Fiduciary Net Position –** Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**Payable to the Pension Plan –** At June 30, 2023, the District has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2023.

### Note 6 – Non-current Liabilities

Non-current liabilities at June 30, 2023, consisted of the following:

| | Balance July 1, 2022 | Additions | Retirements | Balance June 30, 2023 | Current Portion |
|---|---|---|---|---|---|
| Long Term Debt | | | | | |
| *Direct borrowings:* | | | | | |
| Loan payable (CSWRCB) | $ 979,933 | $ - | $ (26,032) | $ 953,901 | $ 26,500 |
| Subtotal Long Term Debt | 979,933 | - | (26,032) | 953,901 | 26,500 |
| Other Non-current Liabilities | | | | | |
| Compensated absences | 29,498 | 1,662 | - | 31,160 | - |
| Net pension liability | 67,087 | - | (8,476) | 58,611 | - |
| Subtotal Other Non-current Liabilities | 96,585 | 1,662 | (8,476) | 89,771 | - |
| Total Business-Type Activity Debt | $ 1,076,518 | $ 1,662 | $ (34,508) | $ 1,043,672 | $ 26,500 |

### State Water Resources Control Board Loan

In May 2018, the District entered into an installment loan agreement in the amount of $1,003,397 with the California State Water Resources Control Board to finance the construction of the District's Wastewater Treatment Facility Upgrade Project. Terms of the loan include: a 30-year term with annual interest of 1.8%; annual debt service payments, including principal and interest, total $43,579, commencing on April 30, 2023 and maturing on April 30, 2051. The loan is secured by a lien and a pledge of the District's net revenues, and any reserve fund.

**Note 6 – Non-current Liabilities (continued)**

The future debt service requirements for the loan payable is as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 26,500 | $ 17,170 | $ 43,670 |
| 2025 | 26,977 | 16,693 | 43,670 |
| 2026 | 27,463 | 16,207 | 43,670 |
| 2027 | 27,957 | 15,713 | 43,670 |
| 2028 | 28,460 | 15,210 | 43,670 |
| 2029-2033 | 150,173 | 68,179 | 218,352 |
| 2034-2038 | 164,184 | 54,168 | 218,352 |
| 2039-2043 | 179,503 | 38,850 | 218,352 |
| 2044-2048 | 196,250 | 22,102 | 218,352 |
| 2049-2051 | 126,434 | 4,579 | 131,013 |
| | $ 953,901 | $ 268,871 | $ 1,222,772 |

All earned vacation hours, holiday, and compensating time is payable upon termination or retirement and are accrued as compensated absences. Compensated absences liability is calculated in accordance with GASB Statement No. 16.

**Note 7 – Risk Management**

The District is exposed to various risks of loss to torts; theft of, damage of, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District joined together with other special districts for insurance coverage under Special Districts Risk Management Authority (SDRMA). The District pays an annual premium to SDRMA for its general insurance coverage.

The District continues to carry commercial insurance for all other risks of loss, including workers' compensation, and employee health and accident insurance.

**Note 8 – Subsequent Events**

The District evaluated subsequent events for recognition and disclosure through September 8, 2023, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2023 that required recognition or disclosure in such financial statements.

# REQUIRED SUPPLEMENTAL INFORMATION

## MURPHYS SANITARY DISTRICT

### SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
### LAST 10 YEARS*
### YEAR ENDED JUNE 30, 2023

| | Proportion of the net pension liability | Proportionate share of the net pension liability | Covered - employee payroll | Proportionate share of the net pension liability as percentage of covered-employee payroll | Plan's fiduciary net position | Plan's fiduciary net position as a percentage of the Total Pension Liability |
|---|---|---|---|---|---|---|
| 2015 | 0.00150% | $ 36,203 | $ 221,876 | 16.32% | $ 528,000 | 93.18% |
| 2016 | 0.00291% | $ 79,794 | $ 237,895 | 33.54% | $ 498,930 | 86.21% |
| 2017 | 0.00347% | $ 120,624 | $ 245,701 | 49.09% | $ 528,696 | 81.42% |
| 2018 | 0.00373% | $ 147,057 | $ 250,630 | 58.67% | $ 602,518 | 80.38% |
| 2019 | 0.00384% | $ 144,841 | $ 216,519 | 66.90% | $ 610,193 | 80.82% |
| 2020 | 0.00411% | $ 164,635 | $ 236,253 | 69.69% | $ 662,637 | 80.10% |
| 2021 | 0.00430% | $ 181,426 | $ 240,546 | 75.42% | $ 685,130 | 79.06% |
| 2022 | 0.00353% | $ 67,087 | $ 266,032 | 25.22% | $ 885,224 | 92.96% |
| 2023 | 0.00125% | $ 58,611 | $ 274,231 | 21.37% | $ 1,009,594 | 94.51% |

*Fiscal year 2014-15 was the first year of implementation, therefore only nine years are shown.

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

## MURPHYS SANITARY DISTRICT

### SCHEDULE OF CONTRIBUTIONS
### LAST 10 YEARS*
### YEAR ENDED JUNE 30, 2023

| | Contractually required contribution (actuarially determined) | Contributions in relation to the actuarially determined contributions | Contributions deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered-employee payroll |
|---|---|---|---|---|---|
| 2015 | $ 13,035 | $ (13,035) | $ - | $ 221,876 | 5.87% |
| 2016 | $ 13,304 | $ (13,304) | $ - | $ 237,895 | 5.59% |
| 2017 | $ 14,292 | $ (14,292) | $ - | $ 245,701 | 5.82% |
| 2018 | $ 20,693 | $ (20,693) | $ - | $ 250,630 | 8.26% |
| 2019 | $ 18,739 | $ (18,739) | $ - | $ 216,519 | 8.65% |
| 2020 | $ 24,584 | $ (24,584) | $ - | $ 236,253 | 10.41% |
| 2021 | $ 35,654 | $ (35,654) | $ - | $ 240,546 | 14.82% |
| 2022 | $ 39,254 | $ (39,254) | $ - | $ 266,032 | 14.76% |
| 2023 | $ 210,781 | $ (210,781) | $ - | $ 274,231 | 76.86% |

*Fiscal year 2014-15 was the first year of implementation, therefore only nine years are shown.

BRYANT L. JOLLEY
CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Luis A. Perez C.P.A.
Lan T. Kimoto

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

To the Board of Directors
Murphys Sanitary District
Murphys, California

We have audited, 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, the financial statements of the Murphys Sanitary District (District), as of and for the year June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 8, 2023.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Murphys Sanitary 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 opinion on the financial statements, but not for the purpose 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 over 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 may exist that have not been identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Murphys Sanitary 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 an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

901 "N" STREET, SUITE 104 FIREBAUGH, CALIFORNIA 93622 PHONE 559.659.3045 FAX 559.659.0615

## 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.

September 8, 2023