



**PALMDALE WATER DISTRICT  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
For the Years Ended  
December 31, 2023 and 2022**

**NIGRO & NIGRO<sup>PC</sup>**

**PALMDALE WATER DISTRICT**

*For the Years Ended December 31, 2023 and 2022*

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***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Palmdale Water District  
Palmdale, California

### Opinion

We have audited the accompanying basic financial statements of Palmdale Water District, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Palmdale Water District as of December 31, 2023 and 2022, and the respective changes in financial position and its cash flows for the years 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 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 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 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total OPEB liability and related ratios, and schedule of OPEB contributions, be presented to supplement the basic financial statements. Such 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. 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.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a separate report dated June 30, 2024, on our consideration of the 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 effectiveness of the District's 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.



Murrieta, California  
June 30, 2024

## **PALMDALE WATER DISTRICT**

### *Management's Discussion and Analysis (Unaudited)*

*For the Years Ended December 31, 2023 and 2022*

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Management's Discussion and Analysis (MD&A) offers readers of Palmdale Water District's financial statements a narrative overview of the District's financial activities for the years ended December 31, 2023 and 2022. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

- In 2023, the District's net position increased 3.00% or \$3,234,589 from the prior year's net position of \$107,662,978 to \$110,897,567, as a result of this year's operations, as well as a prior period adjustment due to a change in accounting principle.
- In 2022, the District's net position increased 7.75% or \$7,745,970 from the prior year's net position of \$99,917,008 to \$107,662,978, as a result of this year's operations, as well as a prior period adjustment due to a change in accounting principle.
- In 2023, the District's operating revenues increased by 10.39% or \$3,252,891 from \$31,320,439 to \$34,573,330, from the prior year, primarily due to an increase in Water sales – commodity charge of \$2,040,267 as well as an increase in monthly meter service charges of \$1,674,195.
- In 2022, the District's operating revenues increased by 3.16% or \$959,242 from \$30,361,197 to \$31,320,439, from the prior year, primarily due to an increase in monthly meter service charges of \$1,582,962.
- In 2023, the District's operating expenses before overhead absorption and depreciation expense increased by 18.68% or \$4,950,882 from \$26,501,941 to \$31,452,823, from the prior year, primarily due to an increase in source of supply – water purchases of \$2,380,656.
- In 2022, the District's operating expenses before overhead absorption and depreciation expense decreased by 6.98% or \$1,989,863 from \$28,491,804 to \$26,501,941, from the prior year, primarily due to a decrease in source of supply – water purchases of \$2,947,954.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis serves as an introduction to the District's financial statements. The District's basic financial statements reflect the combined results of the Operating and Capital Programs and include four components: (1) Balance Sheet; (2) Statement of Revenues, Expenses, and Changes in Net Position; (3) Statement of Cash Flows; and (4) Notes to the Financial Statements.

The financial statements accompanying this MD&A present the net position, results of operations, and changes in cash flow during the years ending December 31, 2023 and 2022. These financial statements have been prepared using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

## **PALMDALE WATER DISTRICT**

*Management's Discussion and Analysis (Unaudited)*

*For the Years Ended December 31, 2023 and 2022*

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### **REQUIRED FINANCIAL STATEMENTS**

#### **Balance Sheets**

The Balance Sheet presents information on the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, zoning, and new or changed legislation or regulations also need to be considered when establishing financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflow of resources, resulting in a net position of \$110,897,567 and \$107,662,978 as of December 31, 2023 and 2022, respectively.

#### **Statement of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the District's net position changed during the year. All of the year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the results of the District's operations for the year and can be used to determine if the District has successfully recovered all of its costs through user fees and other charges. Operating revenues and expenses are related to the District's core activities. Non-operating revenues and expenses are not directly related to the core activities of the District (e.g. interest income, interest expense, property taxes, gain or loss on sale of assets). For the year ended December 31, 2023, net position from operations increased \$3,234,589. For the year ended December 31, 2022, net position from operations increased \$7,745,970, which included an increase of \$11,804 as the result of prior period adjustment from the implementation of GASB 87 (See Note 14).

#### **Statement of Cash Flows**

The Statement of Cash Flows presents information regarding the District's use of cash during the year. It reports cash receipts, cash payments, and net changes in cash resulting from operations, financing and investing activities. The Statement of Cash Flows provides answers to such questions as: Where did cash come from? What was cash used for? What was the change in the cash balance during the reporting period?

District cash flows for the years have been categorized into one of the following activities: operating, noncapital financing, capital and related financing, or investing. For 2023, the total of these categories represents a decrease in cash and cash equivalents of \$5,556,307, which is subtracted from the beginning cash and cash equivalents of \$11,440,639, to arrive at ending cash and cash equivalents of \$16,996,946. For 2022, the total of these categories represents a decrease in cash and cash equivalents of \$3,194,572, which is subtracted from the beginning cash and cash equivalents of \$14,635,211, to arrive at ending cash and cash equivalents of \$11,440,639.



**PALMDALE WATER DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Years Ended December 31, 2023 and 2022*

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**FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION**

**Analysis of Net Position**

**Table A-1: Condensed Balance Sheets**

	<u>Balance,</u> <u>Dec. 31, 2023</u>	<u>Balance,</u> <u>Dec. 31, 2022</u>	<u>Change</u>	<u>Balance,</u> <u>Dec. 31, 2021</u>	<u>Change</u>
<b>Assets:</b>					
Current assets	\$ 27,874,940	\$ 26,645,882	\$ 1,229,058	\$ 24,885,227	\$ 1,760,655
Non-current assets	16,882,311	10,311,208	6,571,103	13,232,582	(2,921,374)
Capital assets, net	<u>185,811,220</u>	<u>179,800,530</u>	<u>6,010,690</u>	<u>168,167,993</u>	<u>11,632,537</u>
<b>Total assets</b>	<u>230,568,471</u>	<u>216,757,620</u>	<u>13,810,851</u>	<u>206,285,802</u>	<u>10,471,818</u>
<b>Deferred outflows of resources</b>	<u>9,004,118</u>	<u>11,706,450</u>	<u>(2,702,332)</u>	<u>9,072,562</u>	<u>2,633,888</u>
<b>Total assets and deferred outflows</b>	<u>\$ 239,572,589</u>	<u>\$ 228,464,070</u>	<u>\$ 11,108,519</u>	<u>\$ 215,358,364</u>	<u>\$ 13,105,706</u>
<b>Liabilities:</b>					
Current liabilities	\$ 11,285,232	\$ 14,724,327	\$ (3,439,095)	\$ 12,222,577	\$ 2,501,750
Non-current liabilities	<u>106,939,406</u>	<u>96,042,029</u>	<u>10,897,377</u>	<u>88,418,833</u>	<u>7,623,196</u>
<b>Total liabilities</b>	<u>118,224,638</u>	<u>110,766,356</u>	<u>7,458,282</u>	<u>100,641,410</u>	<u>10,124,946</u>
<b>Deferred inflows of resources</b>	<u>10,450,384</u>	<u>10,034,736</u>	<u>415,648</u>	<u>14,799,946</u>	<u>(4,765,210)</u>
<b>Net position:</b>					
Net investment in capital assets	121,021,039	119,416,779	1,604,260	111,538,623	7,878,156
Restricted	2,234,414	2,206,783	27,631	2,202,482	4,301
Unrestricted	<u>(12,357,886)</u>	<u>(13,960,584)</u>	<u>1,602,698</u>	<u>(13,824,097)</u>	<u>(136,487)</u>
<b>Total net position</b>	<u>110,897,567</u>	<u>107,662,978</u>	<u>3,234,589</u>	<u>99,917,008</u>	<u>7,745,970</u>
<b>Total liabilities, deferred inflows and net position</b>	<u>\$ 239,572,589</u>	<u>\$ 228,464,070</u>	<u>\$ 11,108,519</u>	<u>\$ 215,358,364</u>	<u>\$ 13,105,706</u>

The condensed statement above presents a summary of the District's statement of net position.

The District's Net Position as of December 31, 2023, totaled \$110,897,567 compared with \$107,662,978 as of December 31, 2022, an increase of 3.00%.

The District's Net Position as of December 31, 2022, totaled \$107,662,978 compared with \$99,917,008 as of December 31, 2021, an increase of 7.75%.

Net position is accumulated from revenues, expenses, and contributed capital combined with the beginning balance of net position as presented in the Statement of Revenues, Expenses, and Changes in Net Position.

**PALMDALE WATER DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Years Ended December 31, 2023 and 2022*

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**FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)**

**Analysis of Revenues and Expenses**

**Table A-2: Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	<u>Balance, Dec. 31, 2023</u>	<u>Balance, Dec. 31, 2022</u>	<u>Change</u>	<u>Balance, Dec. 31, 2021</u>	<u>Change</u>
Operating revenues	\$ 34,573,330	\$ 31,320,439	\$ 3,252,891	\$ 30,361,197	\$ 959,242
Operating expenses	<u>(31,452,823)</u>	<u>(26,501,941)</u>	<u>(4,950,882)</u>	<u>(28,491,804)</u>	1,989,863
<b>Operating income before overhead absorption</b>	<u>3,120,507</u>	<u>4,818,498</u>	<u>(1,697,991)</u>	<u>1,869,393</u>	<u>2,949,105</u>
Overhead absorption	<u>202,747</u>	<u>(2,057,284)</u>	<u>2,260,031</u>	<u>(281,192)</u>	<u>(1,776,092)</u>
<b>Operating income before depreciation</b>	<u>3,323,254</u>	<u>2,761,214</u>	<u>562,040</u>	<u>1,588,201</u>	<u>1,173,013</u>
Depreciation expense	<u>(5,725,517)</u>	<u>(5,359,892)</u>	<u>(365,625)</u>	<u>(5,270,174)</u>	<u>(89,718)</u>
<b>Operating loss after depreciation</b>	<u>(2,402,263)</u>	<u>(2,598,678)</u>	<u>196,415</u>	<u>(3,681,973)</u>	<u>1,083,295</u>
Non-operating revenues (expenses), net	<u>3,538,459</u>	<u>4,770,576</u>	<u>(1,232,117)</u>	<u>1,136,186</u>	<u>3,634,390</u>
<b>Net income(loss) before capital contributions</b>	<u>1,136,196</u>	<u>2,171,898</u>	<u>(1,035,702)</u>	<u>(2,545,787)</u>	<u>4,717,685</u>
Capital contributions	<u>2,098,393</u>	<u>5,562,268</u>	<u>(3,463,875)</u>	<u>5,716,336</u>	<u>(154,068)</u>
<b>Change in net position</b>	<u>3,234,589</u>	<u>7,734,166</u>	<u>(4,499,577)</u>	<u>3,170,549</u>	<u>4,563,617</u>
Net position:					
<b>Beginning of year</b>	107,662,978	99,917,008	7,745,970	96,746,459	3,170,549
<b>Prior period adjustment</b>	<u>-</u>	<u>11,804</u>	<u>(11,804)</u>	<u>-</u>	<u>11,804</u>
<b>End of year</b>	<u>\$ 110,897,567</u>	<u>\$ 107,662,978</u>	<u>\$ 3,234,589</u>	<u>\$ 99,917,008</u>	<u>\$ 7,745,970</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position increased from operations by \$3,234,589, \$7,734,166, and \$3,170,549, for the years ended December 31, 2023, 2022, and 2021 respectively.

**PALMDALE WATER DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Years Ended December 31, 2023 and 2022*

**FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)**

**Total Revenues**

	Balance, Dec. 31, 2023	Balance, Dec. 31, 2022	Change	Balance, Dec. 31, 2021	Change
<b>Operating revenues:</b>					
Water sales – commodity charge	\$ 13,741,868	\$ 11,701,601	\$ 2,040,267	\$ 12,501,007	\$ (799,406)
Water sales – wholesale	210,495	500,102	(289,607)	561,298	(61,196)
Monthly meter service charge	18,475,947	16,801,752	1,674,195	15,218,790	1,582,962
Water quality fees	511,918	623,061	(111,143)	704,782	(81,721)
Elevation fees	320,606	357,741	(37,135)	379,529	(21,788)
Other charges for services	1,312,496	1,336,182	(23,686)	995,791	340,391
<b>Total operating revenues</b>	<b>34,573,330</b>	<b>31,320,439</b>	<b>3,252,891</b>	<b>30,361,197</b>	<b>959,242</b>
<b>Non-operating:</b>					
Property taxes – ad valorem	2,909,289	2,640,066	269,223	1,660,944	979,122
Property tax assessment for State Water Project	6,009,593	7,169,879	(1,160,286)	5,179,076	1,990,803
Successor agency component of property taxes	998,755	836,598	162,157	840,880	(4,282)
Rental revenue – cellular towers	185,449	193,519	(8,070)	18,012	175,507
Investment earnings	573,644	97,234	476,410	(1,067)	98,301
Change in investment – PRWA	27,632	4,301	23,331	934	3,367
Legal and insurance refunds/settlements	48,000	74,172	(26,172)	61,746	12,426
Department of Water Resources – FCR	388,705	349,339	39,366	368,950	(19,611)
Other non-operating revenues	123,035	162,400	(39,365)	87,839	74,561
<b>Total non-operating</b>	<b>11,264,102</b>	<b>11,527,508</b>	<b>(263,406)</b>	<b>8,217,314</b>	<b>3,310,194</b>
<b>Total revenues</b>	<b>\$ 45,837,432</b>	<b>\$ 42,847,947</b>	<b>\$ 2,989,485</b>	<b>\$ 38,578,511</b>	<b>\$ 4,269,436</b>

In 2023, the District's operating revenues increased by 10.39% or \$3,252,891 from \$31,320,439 to \$34,573,330, from the prior year, primarily due to an increase in Water sales – commodity charge of \$2,040,267 as well as an increase in monthly meter service charges of \$1,674,195.

In 2022, the District's operating revenues increased by 3.16% or \$959,242 from \$30,361,197 to \$31,320,439, from the prior year, primarily due to an increase in monthly meter service charges of \$1,582,962.

**PALMDALE WATER DISTRICT**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Years Ended December 31, 2023 and 2022*

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**FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)**

**Total Expenses**

	Balance, Dec. 31, 2023	Balance, Dec. 31, 2022	Change	Balance, Dec. 31, 2021	Change
<b>Operating expenses:</b>					
Source of supply – water purchases	\$ 4,717,720	\$ 2,337,064	\$ 2,380,656	\$ 5,285,018	\$ (2,947,954)
Operations and production	4,449,699	3,626,458	823,241	3,533,551	92,907
Facilities	7,851,419	7,662,975	188,444	7,484,342	178,633
Engineering	2,011,091	1,691,545	319,546	1,670,042	21,503
Water conservation	425,553	509,733	(84,180)	381,068	128,665
Administration	8,278,114	7,325,826	952,288	6,760,997	564,829
Finance and customer care	3,719,227	3,348,340	370,887	3,376,786	(28,446)
<b>Operating expenses before overhead absorption</b>	<b>31,452,823</b>	<b>26,501,941</b>	<b>4,950,882</b>	<b>28,491,804</b>	<b>(1,989,863)</b>
Overhead absorption	(202,747)	2,057,284	(2,260,031)	281,192	1,776,092
<b>Operating expenses before depreciation</b>	<b>31,250,076</b>	<b>28,559,225</b>	<b>2,690,851</b>	<b>28,772,996</b>	<b>(213,771)</b>
Depreciation and amortization	5,725,517	5,359,892	365,625	5,270,174	89,718
<b>Total operating expenses</b>	<b>36,975,593</b>	<b>33,919,117</b>	<b>3,056,476</b>	<b>34,043,170</b>	<b>(124,053)</b>
<b>Non-operating expenses:</b>					
Cost of debt issuance	327,759	7,500	320,259	333,796	(326,296)
State Water Project amortization expense	4,492,670	4,008,232	484,438	4,222,272	(214,040)
Rate assistance program expense	171,546	304,008	(132,462)	-	304,008
Interest expense – long-term debt	2,733,668	2,437,192	296,476	2,525,060	(87,868)
<b>Total non-operating</b>	<b>7,725,643</b>	<b>6,756,932</b>	<b>968,711</b>	<b>7,081,128</b>	<b>(324,196)</b>
<b>Total expenses</b>	<b>\$ 44,701,236</b>	<b>\$ 40,676,049</b>	<b>\$ 4,025,187</b>	<b>\$ 41,124,298</b>	<b>\$ (448,249)</b>

In 2023, the District's operating expenses before overhead absorption and depreciation expense increased by 18.68% or \$4,950,882 from \$26,501,941 to \$31,452,823, from the prior year, primarily due to an increase in source of supply – water purchases of \$2,380,656.

In 2022, the District's operating expenses before overhead absorption and depreciation expense decreased by 6.98% or \$1,989,863 from \$28,491,804 to \$26,501,941, from the prior year, primarily due to a decrease in source of supply – water purchases of \$2,947,954.

## PALMDALE WATER DISTRICT

### Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2023 and 2022

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#### CAPITAL ASSETS

At the end of 2023, 2022 and 2021, the District's investment in capital assets was \$185,811,219, \$179,800,530 and \$168,167,993, net of accumulated depreciation, respectively. Capital asset additions during the years ended December 31, 2023, and 2022 were \$9,774,018 and \$14,139,799, for various projects and equipment. (More detailed information about capital assets can be found in Note 6 of the financial statements). Total depreciation expense for the year exceeded \$5.7 million and \$5.3 million as of December 31, 2023, and 2022, respectively.

**Table A-5: Capital Assets at Year End, Net of Depreciation**

Capital assets:	Balance, Dec. 31, 2023	Balance, Dec. 31, 2022	Balance, Dec. 31, 2021
Non-depreciable assets	\$ 22,354,621	\$ 21,316,338	\$ 10,995,185
Depreciable assets	372,436,615	358,125,376	347,561,242
Accumulated depreciation and amortization	<u>(208,980,017)</u>	<u>(199,641,184)</u>	<u>(190,388,434)</u>
<b>Total capital assets, net</b>	<b><u>\$ 185,811,219</u></b>	<b><u>\$ 179,800,530</u></b>	<b><u>\$ 168,167,993</u></b>

#### LONG-TERM DEBT

At year-end the District had \$80.1 million in direct finance purchases, loan payables, and revenue bonds payables – an increase(decrease) of 8,785,017 and (\$372,807) in 2023 and 2022 respectively – as shown in Table A-6. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements).

**Table A-6: Outstanding Long-Term Debt at Year-End**

Long-term debt:	Balance, Dec. 31, 2023	Balance, Dec. 31, 2022	Balance, Dec. 31, 2021
Direct finance purchase	\$ 1,952,719	\$ 2,400,000	\$ 88,250
Loan payable – 2012	-	1,342,628	2,643,024
Revenue bonds payable, net – 2013	-	10,359,167	11,056,295
Revenue bonds payable, net – 2018	13,206,881	13,508,927	13,795,973
Revenue refunding bonds – non-taxable – 2020	8,939,354	8,952,691	8,965,604
Revenue refunding bonds – taxable – 2020	14,025,000	14,190,000	14,355,000
Revenue bonds – 2021A	10,196,636	10,225,880	10,255,124
Revenue refunding bonds – 2021	10,146,820	10,356,500	10,549,330
Revenue bonds payable, net - 2023	<u>21,653,400</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 80,120,810</u></b>	<b><u>\$ 71,335,793</u></b>	<b><u>\$ 71,708,600</u></b>

## **PALMDALE WATER DISTRICT**

*Management's Discussion and Analysis (Unaudited)*

*For the Years Ended December 31, 2023 and 2022*

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### **CONDITIONS AFFECTING CURRENT FINANCIAL POSITION**

- The District was required to meet the State of California's mandatory 20% drought restrictions put in place in April of 2022. The District's customers have responded to the mandate by changing their water usage habits.
- Billed water consumption for the year ended December 31, 2023 was at 14,702-acre feet compared to 15,903-acre feet for the year ended December 31, 2022.
- The District's assessed valuation has increased to \$2.73 billion for FY 2022/2023 from \$2.26 billion for FY 2021/2022.
- The District received \$2.9 million in ad valorem property tax revenue for 2023.
- The District received \$998,755 in successor agency component property taxes for 2023.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's ratepayer, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives and the stewardship of the facilities it owns and operates. If you have questions about this report or need additional information, please contact Palmdale Water District, Finance Department, 2029 East Avenue Q, Palmdale, California 93550 or (661) 947-4111.

## PALMDALE WATER DISTRICT

### Balance Sheets

December 31, 2023 and 2022

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<b>ASSETS</b>	<b>2023</b>	<b>2022</b>
<b>Current assets:</b>		
Cash and cash equivalents (Note 2)	\$ 2,615,777	\$ 3,716,677
Investments (Note 2)	12,937,858	12,378,256
Accrued interest receivable	84,297	37,140
Accounts receivable – water sales and services, net (Note 3)	2,673,926	2,454,125
Accounts receivable – property taxes and assessments	4,922,573	5,459,701
Lease receivable (Note 4)	113,735	102,586
Accounts receivable – other	1,906,172	221,643
Materials and supplies inventory	1,852,279	1,451,130
Prepaid expenses	768,323	824,624
<b>Total current assets</b>	<b>27,874,940</b>	<b>26,645,882</b>
<b>Non-current assets:</b>		
Restricted – cash and cash equivalents (Note 2)	14,381,169	7,723,962
Lease receivable (Note 4)	266,728	380,463
Investment in Palmdale Recycled Water Authority (Note 5)	2,234,414	2,206,783
Capital assets – not being depreciated (Note 6)	22,354,621	21,316,338
Capital assets – being depreciated, net (Note 6)	163,456,599	158,484,192
<b>Total non-current assets</b>	<b>202,693,531</b>	<b>190,111,738</b>
<b>Total assets</b>	<b>230,568,471</b>	<b>216,757,620</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on debt defeasance, net (Note 9)	1,178,100	3,583,794
Deferred amounts related to net OPEB obligation (Note 10)	2,477,984	2,887,977
Deferred amounts related to net pension liability (Note 11)	5,348,034	5,234,679
<b>Total deferred outflows of resources</b>	<b>9,004,118</b>	<b>11,706,450</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 239,572,589</b>	<b>\$ 228,464,070</b>

**PALMDALE WATER DISTRICT**  
*Balance Sheets (continued)*  
*December 31, 2023 and 2022*

<b>LIABILITIES</b>	<b>2023</b>	<b>2022</b>
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	3,594,958	\$ 5,489,452
Customer deposits for water service	3,879,644	3,700,690
Construction and developer deposits	1,676,656	1,641,722
Accrued interest payable	690,229	524,635
Long-term liabilities – due within one year:		
Compensated absences (Note 8)	199,984	178,216
Right-to-use lease payable (Note 7)	109,022	126,686
Direct finance purchase (Note 9)	463,073	447,281
Loan payable (Note 9)	-	1,342,628
Revenue bonds payable (Note 9)	671,666	1,273,017
<b>Total current liabilities</b>	<b>11,285,232</b>	<b>14,724,327</b>
<b>Non-current liabilities:</b>		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 8)	599,952	534,647
Right-to-use lease payable (Note 7)	119,618	229,028
Direct finance purchase (Note 9)	1,489,646	1,952,719
Loan payable (Note 9)	-	-
Revenue bonds payable, net (Note 9)	77,496,425	66,320,148
Net other post-employment benefits obligation (Note 10)	12,118,384	13,275,385
Net pension liability (Note 11)	15,115,381	13,730,102
<b>Total non-current liabilities</b>	<b>106,939,406</b>	<b>96,042,029</b>
<b>Total liabilities</b>	<b>118,224,638</b>	<b>110,766,356</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unearned property taxes and assessments	4,300,000	4,300,000
Deferred amounts related to leases (Note 4)	345,431	460,575
Deferred amounts related to net OPEB obligation (Note 10)	5,252,471	4,502,897
Deferred amounts related to net pension liability (Note 11)	552,482	771,264
<b>Total deferred inflows of resources</b>	<b>10,450,384</b>	<b>10,034,736</b>
<b>NET POSITION</b>		
Net investment in capital assets (Note 12)	121,021,039	119,416,779
Restricted – Palmdale Recycled Water Authority (Note 5)	2,234,414	2,206,783
Unrestricted (Deficit) (Note 13)	(12,357,886)	(13,960,584)
<b>Total net position</b>	<b>110,897,567</b>	<b>107,662,978</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 239,572,589</b>	<b>\$ 228,464,070</b>



## PALMDALE WATER DISTRICT

### Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Operating revenues:</b>		
Water sales – commodity charge	13,741,868	\$ 11,701,601
Water sales – wholesale	210,495	500,102
Monthly meter service charge	18,475,947	16,801,752
Water quality fees	511,918	623,061
Elevation fees	320,606	357,741
Other charges for services	<u>1,312,496</u>	<u>1,336,182</u>
<b>Total operating revenues</b>	<u>34,573,330</u>	<u>31,320,439</u>
<b>Operating expenses:</b>		
Source of supply – water purchases	4,717,720	2,337,064
Operations and production	4,449,699	3,626,458
Facilities	7,851,419	7,662,975
Engineering	2,011,091	1,691,545
Water conservation	425,553	509,733
Administration	8,278,114	7,325,826
Finance and customer care	<u>3,719,227</u>	<u>3,348,340</u>
<b>Total operating expenses</b>	<u>31,452,823</u>	<u>26,501,941</u>
<b>Operating income before overhead absorption</b>	3,120,507	4,818,498
Overhead absorption	<u>202,747</u>	<u>(2,057,284)</u>
<b>Operating income before depreciation and amortization expense</b>	3,323,254	2,761,214
Depreciation expense (Note 6)	(5,594,181)	(5,223,047)
Right-to-use asset amortization expense (Note 7)	<u>(131,336)</u>	<u>(136,845)</u>
<b>Operating loss</b>	<u>(2,402,263)</u>	<u>(2,598,678)</u>
<b>Non-operating revenues(expenses):</b>		
Property taxes – ad valorem	2,909,289	2,640,066
Property tax assessment for State Water Project	6,009,593	7,169,879
Successor agency component of property taxes	998,755	836,598
Rental revenue – cellular towers (Note 4)	185,449	193,519
Investment earnings	573,644	97,234
Changes in investment – Palmdale Recycled Water Authority (Note 5)	27,632	4,301
Legal and insurance refunds/settlements	48,000	74,172
Department of Water Resources – fixed charge recovery	388,705	349,339
Other non-operating revenues	123,035	162,400
Cost of debt issuance (Note 9)	(327,759)	(7,500)
State Water Project amortization expense (Note 6)	(4,492,670)	(4,008,232)
Rate assistance program expense	(171,546)	(304,008)
Interest expense – long-term debt	<u>(2,733,668)</u>	<u>(2,437,192)</u>
<b>Total non-operating revenue(expense), net</b>	<u>3,538,459</u>	<u>4,770,576</u>
<b>Net income(loss) before capital contributions</b>	<u>1,136,196</u>	<u>2,171,898</u>
<b>Capital contributions:</b>		
Capital improvement fees	802,116	5,408,187
Federal and state capital grants	<u>1,296,277</u>	<u>154,081</u>
<b>Total capital contributions</b>	<u>2,098,393</u>	<u>5,562,268</u>
<b>Change in net position</b>	3,234,589	7,734,166
<b>Net position:</b>		
Beginning of year	107,662,978	99,917,008
Prior period adjustment (Note 14)	<u>-</u>	<u>11,804</u>
End of year	<u>\$ 110,897,567</u>	<u>\$ 107,662,978</u>

# PALMDALE WATER DISTRICT

## Statements of Cash Flows

For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities:</b>		
Cash receipts from water sales and services	\$ 34,567,417	\$ 31,684,142
Cash receipts from others	(1,319,803)	656,006
Cash paid to employees for salaries and wages	(10,366,975)	(9,849,959)
Cash paid to vendors and suppliers for materials and services	<u>(21,836,978)</u>	<u>(14,316,571)</u>
<b>Net cash provided by operating activities</b>	<u>1,043,661</u>	<u>8,173,618</u>
<b>Cash flows from non-capital financing activities:</b>		
Proceeds from property taxes	4,445,172	2,591,238
Proceeds from property tax assessment for State Water Project	6,009,593	7,169,879
Acquisition of State Water Project participation rights	<u>(6,454,858)</u>	<u>(6,357,278)</u>
<b>Net cash provided by non-capital financing activities</b>	<u>3,999,907</u>	<u>3,403,839</u>
<b>Cash flows from capital and related financing activities:</b>		
Right-to-use leased asset, net	-	(408,390)
Right-to-use leases payable, net	-	396,586
Acquisition and construction of capital assets	(9,774,018)	(14,139,799)
Proceeds from capital improvement fees and capital grants	2,098,393	5,562,268
Proceeds from issuance of revenue refunding bonds	21,225,000	-
Proceeds from issuance of right-to-use asset financing	-	2,080,319
Cost of debt issuance	(327,759)	(7,500)
Principal paid on right-to-use lease payable	(127,074)	(136,068)
Principal paid on long-term debt	(9,340,298)	(2,604,389)
Interest paid on long-term debt	<u>(2,568,074)</u>	<u>(3,074,043)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>1,186,170</u>	<u>(12,331,016)</u>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(8,640,881)	(9,947,893)
Sales of investments	7,747,931	7,373,951
Investment earnings	<u>219,519</u>	<u>132,929</u>
<b>Net cash used in investing activities</b>	<u>(673,431)</u>	<u>(2,441,013)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	5,556,307	(3,194,572)
<b>Cash and cash equivalents:</b>		
Beginning of year	<u>11,440,639</u>	<u>14,635,211</u>
End of year	<u>\$ 16,996,946</u>	<u>\$ 11,440,639</u>
<b>Reconciliation of cash and cash equivalents to the statement of net position:</b>		
Cash and cash equivalents	\$ 2,615,777	\$ 3,716,677
Restricted assets – cash and cash equivalents	<u>14,381,169</u>	<u>7,723,962</u>
<b>Total cash and cash equivalents</b>	<u>\$ 16,996,946</u>	<u>\$ 11,440,639</u>

**PALMDALE WATER DISTRICT**  
*Statements of Cash Flows (continued)*  
*For the Years Ended December 31, 2023 and 2022*

	<u>2023</u>	<u>2022</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (2,402,263)	\$ (2,598,678)
<b>Adjustments to reconcile operating loss to net cash provided by operating activities:</b>		
Depreciation and amortization	5,725,517	5,359,892
Overhead absorption	(202,747)	2,057,284
Rental revenue – cellular towers	185,449	193,519
Legal and insurance refunds/settlements	48,000	74,172
Department of Water Resources – fixed charge recovery	388,705	349,339
Other non-operating revenues	123,035	162,400
<b>Change in assets – (increase)decrease:</b>		
Accounts receivable – water sales and services, net	(219,801)	150,673
Lease receivable	(380,463)	(483,049)
Accounts receivable – other	(1,684,529)	359,625
Materials and supplies inventory	(401,149)	442,901
Prepaid expenses	56,301	(9,371)
<b>Change in deferred outflows of resources – (increase)decrease</b>		
Deferred amounts related to net OPEB obligation	409,993	357,048
Deferred amounts related to net pension liability	(113,355)	(3,456,272)
<b>Change in liabilities – increase(decrease):</b>		
Accounts payable and accrued expenses	(1,894,494)	1,731,291
Customer deposits for water service	178,954	212,386
Construction and developer deposits	34,934	644
Compensated absences	87,073	38,047
Net other post-employment benefits obligation	(1,157,001)	523,511
Net pension liability	1,385,279	7,673,466
<b>Change in deferred inflows of resources – increase(decrease)</b>		
Deferred amounts related to leases	345,431	460,575
Deferred amounts related to net OPEB obligation	749,574	(698,932)
Deferred amounts related to net pension liability	(218,782)	(4,726,853)
<b>Total adjustments</b>	<u>3,445,924</u>	<u>10,772,296</u>
<b>Net cash provided by operating activities</b>	<u>\$ 1,043,661</u>	<u>\$ 8,173,618</u>
<b>Non-cash investing, capital and financing transactions:</b>	<b>2023</b>	<b>2022</b>
Change in fair-value of investments	\$ 306,968	\$ (40,683)
Amortization of deferred amount on debt defeasance	\$ (3,597,018)	\$ (375,340)
Amortization of net premium(discount) on revenue bonds	\$ 2,191,774	\$ 168,418
Changes in investment – Palmdale Recycled Water Authority	\$ 27,632	\$ 4,301

## **PALMDALE WATER DISTRICT**

### *Notes to Financial Statements*

*December 31, 2023 and 2022*

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#### **NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

##### **A. Description of Organization**

The Palmdale Water District (District) was formed as an Irrigation District under Division 11 of the California Water Code in 1918. The District provides potable water service to a portion of the City of Palmdale, California, and surrounding unincorporated areas of the County of Los Angeles. The District is operated under the direction of a five-member board of directors. The board members are elected by the public for staggered four-year terms.

##### **B. Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity* (GASB Statement No. 61). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Palmdale Water District Public Facilities Corporation (Corporation) was organized on August 22, 1991, pursuant to the Nonprofit Public Benefit Corporation Law of the State of California, solely for the purpose of acquiring and or constructing various public facilities and providing financial assistance to the District. Accordingly, this component unit is blended within the financial statements of the District.

The Palmdale Water District Public Financing Authority (Authority) was organized on April 10, 2013, pursuant to a Joint Exercise of Powers Agreement by and between the Palmdale Water District and the California Municipal Finance Authority, solely for the purpose of providing financing for District capital improvements. Accordingly, this component unit is blended within the financial statements of the District.

##### **C. Basis of Presentation, Basis of Accounting**

The Financial Statements (i.e., the balance sheet, the statement of revenues, expenses and change in net position, and statement of cash flows) report information on all of the activities of the primary government. The District accounts for its operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Financial Statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

##### C. Basis of Presentation, Basis of Accounting (continued)

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

*Deferred Outflows of Resources* represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

*Deferred Inflows of Resources* represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as *operating income* in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

##### D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

###### 1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Cash deposits are reported at the carrying amount, which reasonably estimates fair value.

###### 2. Investments

Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

*Level 2* – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

## **PALMDALE WATER DISTRICT**

### *Notes to Financial Statements*

*December 31, 2023 and 2022*

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#### **NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)**

###### **2. Investments (continued)**

*Level 3* – Inputs that are unobservable. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and is based on the best information available in the circumstances.

###### **3. Allowance for Doubtful Accounts**

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

###### **4. Lease Receivable and Deferred Inflows of Resources**

The primary objective is to enhance the relevance and consistency of information about the governments' leasing activities. As a lessor, the District is required to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. The District's lease receivable is measured at the present value of the lease payments expected to be received during the lease term. Under the lease agreement, the District may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payment is received. A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is measured at the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relate to future periods. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

###### **5. Prepays**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

###### **6. Materials and Supplies Inventory**

Materials and supplies consist primarily of water meters, pipe, and pipefittings for construction and repair to the District's water transmission and distribution system. Materials and supplies are valued at cost using a weighted average method. Materials and supplies are charged to expense at the time that individual items are consumed.

###### **7. Right-To-Use Lease Asset and Right-To-Use Lease Payable**

The primary objective is to enhance the relevance and consistency of information about the governments' leasing activities. The District has established a single model for lease accounting based on the principle that leases are financings of a right-to-use underlying asset. As a lessee, the District is required to recognize a lease liability (payable) and an intangible right-to-use leased asset. At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The leased asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the leased asset is amortized on a straight-line basis over its useful life. The District monitors changes in circumstances that would require remeasurement of its lease and will remeasure the leased asset and lease payable if certain changes occur that are expected to significantly affect the amount of the lease payable.

**PALMDALE WATER DISTRICT**

*Notes to Financial Statements*

*December 31, 2023 and 2022*

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**NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)**

**8. Capital Assets**

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the District’s policy to capitalize assets costing over \$5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. Estimated service lives for the District’s classes of assets are as follows:

<u>Description</u>	<u>Estimated Lives</u>
Capital Equipment	10 Years
Furniture	7-10 Years
Vehicles	5-10 Years
Small Equipment	3-5 Years

**9. State Water Project – Participation Rights**

The District participates in the State Water Project (the Project) entitling it to certain participation rights. The District’s participation in the Project is through payments to the California Department of Water Resources from tax assessments collected from within the District’s service area. Monies used for the construction of capital assets, such as pipelines, pumping facilities, storage facilities, etc., are recorded as participation rights and amortized over the life of the agreements. Certain projects also require payments for on-going maintenance; those payments are charged to expense as incurred.

**10. Customer Deposits for Water Service**

Based on a customer’s credit, the District may require a deposit deemed reasonable by the District. These deposits are held to pay off close out bills or to cover delinquent payments.

**11. Compensated Absences**

The liability for compensated absences reported on the balance sheet consists of unpaid, accumulated annual and vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**PALMDALE WATER DISTRICT**

*Notes to Financial Statements*

*December 31, 2023 and 2022*

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**NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)**

**12. Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District’s California Public Employees’ Retirement System (CalPERS) plans and addition to/deductions from the Plans’ 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 currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at the CalPERS’s website.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

<u>CalPERS</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Valuation Date	June 30, 2021	June 30, 2020
Measurement Date	June 30, 2022	June 30, 2021
Measurement Period	July 1, 2021 to June 30, 2022	July 1, 2020 to June 30, 2021

**13. Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District’s Other Post-Employment Retiree Benefits Plan (Plan) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

<u>OPEB</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Valuation Date	December 31, 2022	December 31, 2021
Measurement Date	December 31, 2023	December 31, 2022
Measurement Period	Jan. 1, 2023 to Dec. 31, 2023	Jan. 1, 2022 to Dec. 31, 2022



## **PALMDALE WATER DISTRICT**

### *Notes to Financial Statements*

*December 31, 2023 and 2022*

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#### **NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)**

###### **14. Net Position**

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

##### **E. Property Taxes**

Property tax in California is levied in accordance with Article XIII A of the State Constitution at one percent of county-wide assessed valuations. This one percent is allocated pursuant to state law to the appropriate units of local government. Tax levies are limited to 1% of full market value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. The County of Los Angeles bills and collects property taxes on behalf of the District. The County's tax year is July 1, to December 31. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and March 1, and become delinquent after December 10, and April 10.

##### **F. Water Sales**

Most water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through year-end has been accrued.

##### **G. Capital Improvement Fees**

Capital improvement fees represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

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**NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**H. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments were classified in the accompanying financial statements as follows:

<u>Description</u>	<u>Balance, Dec. 31, 2023</u>	<u>Balance, Dec. 31, 2022</u>
Cash and cash equivalents	\$ 2,615,777	\$ 3,716,677
Investments	12,937,858	12,378,256
Restricted – cash and cash equivalents	14,381,169	7,723,962
<b>Total</b>	<u>\$ 29,934,804</u>	<u>\$ 23,818,895</u>

Cash and investments consisted of the following:

<u>Description</u>	<u>Balance, Dec. 31, 2023</u>	<u>Balance, Dec. 31, 2022</u>
Cash on hand	\$ 5,700	\$ 5,700
Demand deposits held with financial institutions	797,666	1,278,353
Local Agency Investment Fund (LAIF)	13,150	12,778
Money-market funds	1,799,261	2,419,846
Money-market funds – restricted	14,381,169	7,723,962
Investments	12,937,858	12,378,256
<b>Total</b>	<u>\$ 29,934,804</u>	<u>\$ 23,818,895</u>

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 2 – CASH AND INVESTMENTS (continued)

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

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage of Portfolio</b>	<b>Maximum Investment in One Issuer</b>
U.S. Treasury obligations	5-years	None	None
District issued bonds	5-years	None	None
Government sponsored agency securities	5-years	None	None
Certificates-of-deposit	5-years	60%	None
Money-market funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

#### Investments Authorized by Debt Agreements

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

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage of Portfolio</b>	<b>Maximum Investment in One Issuer</b>
Investment contracts	None	None	None
Money-market funds	N/A	None	None

#### Demand Deposits with Financial Institutions

At December 31, 2023 and 2022, the carrying amount of the District's demand deposits were \$797,666 and \$1,278,353, respectively, and the financial institution's balance were \$1,049,740 and \$1,343,013, respectively. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the District's balance for each year.

#### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, 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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 2 – CASH AND INVESTMENTS (continued)

##### Money-Market Funds

Money-market funds are an investment whose objective is to earn modest investment earnings while maintaining a net asset value (NAV) of \$1 per share (which is the funds main goal – preservation of principal). A money-market fund's portfolio is typically comprised of short-term, or less than one year, securities representing high-quality, liquid debt and monetary instruments with minimal credit risk. Money-market funds are Level 1 investments (with quoted prices in active markets for identical assets) that are Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers money-market funds a cash equivalent due to their highly liquid nature and NAV of \$1 per share. As of December 31, 2023, the District held \$1,799,261 in unrestricted money-market funds and \$14,381,169 in restricted money-market funds. As of December 31, 2022, the District held \$2,419,846 in unrestricted money-market funds and \$7,723,962 in restricted money-market funds.

##### Local Agency Investment Fund (LAIF)

The California State Treasurer, through the Pooled Money Investment Account (PMIA), invests taxpayers' money to manage the State's cash flow and strengthen the financial security of local governmental entities. PMIA policy sets as primary investment objectives safety, liquidity and yield. Through the PMIA, the Investment Division manages the Local Agency Investment Fund (LAIF). The LAIF allows cities, counties and special districts to place money in a major portfolio and, at no additional costs to taxpayers, use the expertise of Investment Division staff. Participating agencies can withdraw their funds from the LAIF at any time as LAIF is highly liquid and carries a dollar-in dollar-out amortized cost methodology.

The District is a voluntary participant in LAIF. The fair value of the District's investment in this pool is reported at an amount 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 the of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis and it is Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of December 31, 2023, and 2022, the District held \$13,150 and \$12,778 in LAIF, respectively.

The investment policy of the District limits the amount that can be invested in an external investment pool (LAIF). A maximum limit has been set at \$500,000 that can be invested in LAIF at any point in time.

##### Investments

Investment maturities and credit ratings as of December 31, 2023, consisted of the following:

Type of Investments	Measurement Input	Credit Rating	Fair Value	Maturity
				12 Months or Less
U.S. Treasury notes	Level 1	Exempt	\$ 7,322,745	\$ 7,322,745
Certificates-of-deposit	Level 1	Not Rated	5,615,113	5,615,113
<b>Total investments</b>			<u>\$ 12,937,858</u>	<u>\$ 12,937,858</u>

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 2 – CASH AND INVESTMENTS (continued)

##### Investments (continued)

Investment maturities and credit ratings as of December 31, 2022, consisted of the following:

Type of Investments	Measurement Input	Credit Rating	Fair Value	Maturity
				12 Months or Less
U.S. Treasury notes	Level 1	Exempt	\$ 7,749,428	\$ 7,749,428
Certificates-of-deposit	Level 1	Not Rated	4,628,828	4,628,828
<b>Total investments</b>			<b>\$ 12,378,256</b>	<b>\$ 12,378,256</b>

##### Investments – 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 District's investment policy limits investment purchases to investments with a term not to exceed five-years. The District's did not hold any investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

##### Investments – Credit Risk

The District's investment policy limits investment choices to investment securities allowed by the California Government Code. At December 31, 2023 and 2022, all investments represented investment securities which were issued, registered and held by the District's agent in the District's name.

##### Investments – Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At December 31, 2023 and 2022, the District had the following investments that represented more than five percent of the Authority's net investment balance.

Investments greater than 5% for the year ended December 31, 2023, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Investments
U.S. Treasury note - March 15, 2024	\$ 1,806,823	13.97%
U.S. Treasury bill - March 21, 2024	766,173	5.92%
U.S. Treasury note - April 30, 2024	742,500	5.74%
U.S. Treasury note - May 15, 2024	713,936	5.52%
U.S. Treasury note - September 15, 2024	1,452,660	11.23%
<b>Total</b>	<b>\$ 5,482,092</b>	<b>42.37%</b>

Investments greater than 5% for the year ended December 31, 2022, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Investments
U.S. Treasury note - January 1, 2023	\$ 1,115,829	9.01%
U.S. Treasury bill - January 26, 2023	748,140	6.04%
U.S. Treasury note - March 15, 2023	1,339,713	10.82%
U.S. Treasury bill - March 23, 2023	743,018	6.00%
U.S. Treasury note - September 15, 2023	968,630	7.83%
<b>Total</b>	<b>\$ 4,915,330</b>	<b>39.71%</b>

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 3 – ACCOUNTS RECEIVABLE – WATER SALES AND SERVICES, NET

The balances consisted of the following:

Description	Balance, Dec. 31, 2023	Balance, Dec. 31, 2022
Accounts receivable – water sales and services	\$ 2,679,072	\$ 2,508,756
Allowance for doubtful accounts	(5,146)	(54,631)
<b>Accounts receivable – water sales and services, net</b>	<b>\$ 2,673,926</b>	<b>\$ 2,454,125</b>

#### NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES

Changes in the District’s lease receivable for the year ended December 31, 2023 was as follows:

Description	Balance, Jan. 1, 2023	Additions	Deletions	Balance, Dec. 31, 2023
Cellular antenna site rental No. 1	\$ 234,240	\$ -	\$ (44,745)	\$ 189,495
Cellular antenna site rental No. 2	168,191	-	(38,287)	129,904
Cellular antenna site rental No. 3	80,618	-	(19,554)	61,064
<b>\$ 483,049</b>	<b>\$ -</b>	<b>\$ (102,586)</b>	<b>\$ 380,463</b>	

Changes in the District’s lease receivable for the year ended December 31, 2022 was as follows:

Description	Balance, Jan. 1, 2022	Additions	Deletions	Balance, Dec. 31, 2022
Cellular antenna site rental No. 1	\$ -	\$ 271,774	\$ (37,534)	\$ 234,240
Cellular antenna site rental No. 2	-	204,159	(35,968)	168,191
Cellular antenna site rental No. 3	-	99,785	(19,167)	80,618
<b>\$ -</b>	<b>\$ 575,718</b>	<b>\$ (92,669)</b>	<b>\$ 483,049</b>	

The District is reporting a total lease receivable of \$380,463 and \$483,049 a total related deferred inflows of resources of \$345,431 and \$460,575 for the year ending June 30, 2023 and 2022, respectively. Also, the District is reporting total lease revenue of \$115,144 and \$115,144 and interest revenue of \$8,740 and \$10,683 related to payments received from the above three leases for the year ending June 30, 2023, and 2022, respectively.

The leases held by the District do not have an implicit rate of return, therefore the District used their incremental borrowing rate of 2.00% to discount the lease revenue to the net present value. In some cases, leases contain termination clauses. In these cases, the clause requires the lessee or lessor to show cause to terminate the lease. Also, certain leasing-types are considered “volatile leases.” Those volatile leases were not extended past their initial lease period for financial statement recognition due to their volatility.

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)

##### **Cellular Antenna Site Rental No. 1**

The District, on January 1, 2022, renewed a continuous lease with Sprint/AT&T for 60 months as lessor for the use of a cellular antenna site rental. An initial lease receivable was recorded in the amount of \$271,774. As of December 31, 2023, the value of the lease receivable was \$189,495. The lease is required to make monthly fixed payments of \$3,194 for the first 3-month period, then increase 15.0% on April 1<sup>st</sup> of each year. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was \$163,065 as of December 31, 2023. The District recognized lease revenue of \$54,355 and interest revenue of \$4,289 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period. Since this is considered a volatile lease only this lease period has been recognized.

##### **Cellular Antenna Site Rental No. 2**

The District, on January 1, 2022, renewed a continuous lease with T-Mobile for 60 months as lessor for the use of a cellular antenna site rental. An initial lease receivable was recorded in the amount of \$204,159. As of December 31, 2023, the value of the lease receivable was \$129,904. The lease is required to make monthly fixed payments of \$3,257 for the first 7-month period, then increase 4.0% on August 1<sup>st</sup> of each year. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was \$122,495 as of December 31, 2023. The District recognized lease revenue of \$40,832 and interest revenue of \$3,018 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period. Since this is considered a volatile lease only this lease period has been recognized.

##### **Cellular Antenna Site Rental No. 3**

The District, on January 1, 2022, renewed a continuous lease with Crown Castle USA, Inc., for 60 months as lessor for the use of a cellular antenna site rental. An initial lease receivable was recorded in the amount of \$99,785. As of December 31, 2023, the value of the lease receivable was \$61,064. The lease is required to make monthly fixed payments of \$1,749 for the first 12-month period, then will be evaluated annually for increases. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was \$59,871 as of December 31, 2023. The District recognized lease revenue of \$19,957 and interest revenue of \$1,434 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period. Since this is considered a volatile lease only this lease period has been recognized.

Minimum future lease receipts for the next four fiscal years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 113,735	\$ 6,589	\$ 120,324
2025	126,287	4,202	130,489
2026	140,441	1,549	141,990
Total	380,463	\$ 12,340	\$ 392,803
Less: current	<u>(113,735)</u>		
Total non-current	<u>\$ 266,728</u>		

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

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**NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)**

Changes in the District’s deferred inflows of resources related to leases for December 31, 2023 is as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, Dec. 31, 2023</u>
Cellular antenna site rental No. 1	\$ 217,420	\$ -	\$ (54,355)	\$ 163,065
Cellular antenna site rental No. 2	163,327	-	(40,832)	122,495
Cellular antenna site rental No. 3	79,828	-	(19,957)	59,871
	<u>\$ 460,575</u>	<u>\$ -</u>	<u>\$ (115,144)</u>	<u>\$ 345,431</u>

Changes in the District’s deferred inflows of resources related to leases for December 31, 2022 is as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, Dec. 31, 2022</u>
Cellular antenna site rental No. 1	\$ -	\$ 271,774	\$ (54,354)	\$ 217,420
Cellular antenna site rental No. 2	-	204,159	(40,832)	163,327
Cellular antenna site rental No. 3	-	99,785	(19,957)	79,828
	<u>\$ -</u>	<u>\$ 575,718</u>	<u>\$ (115,143)</u>	<u>\$ 460,575</u>

The amounts reported as deferred inflows of resources related to leases for the year ended December 31, 2023, will be amortized in future periods as follows:

<u>Amortization Period Fiscal Year Ended Dec. 31, 2023</u>	<u>Deferred Inflows of Resources</u>
2024	\$ 115,144
2025	115,144
2026	115,143
Total	<u>\$ 345,431</u>

**Fin Feather Club Lease**

The District has a lease agreement with the Fin Feather Club for use of District owned land and lake by the club’s members, for activities including hunting, fishing, archery practice, as well as other recreational activities. The lease originated in 2006 and runs for five-year terms, with the club having the right to unilaterally terminate the lease with a six-month written notice to the District. The terms of the lease call for annual rent payments to the District of \$3,000 or five percent of gross, non-retail-based receipts of the Club as per the Club’s annual audit for the previous calendar year. Due to the uncertain nature of the annual rent received by the District, this lease agreement was not included in the GASB 87 calculations. The District recognized \$64,409 in lease revenue during the fiscal year.



## **PALMDALE WATER DISTRICT**

### *Notes to Financial Statements*

*December 31, 2023 and 2022*

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#### **NOTE 5 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY**

The Palmdale Recycled Water Authority (the Authority) was formed under a Joint Exercise of Powers Authority on September 26, 2012, pursuant to Section(s) 6506 and 6507 of the Exercise of Powers Act, codified by California Government Code section(s) 6500, which authorizes public agencies by agreement to exercise jointly any power common to the contracting parties. The Authority was formed between the City of Palmdale, a California Charter City (the City) and Palmdale Water District, an Irrigation District under Division 11 of the California Water Code (the District). The Authority is an independent public agency separate from its Members.

The purpose of the Authority is to establish an independent public agency to study, promote, develop, distribute, construct, install, finance, use and manage recycled water resources created by the Los Angeles County Sanitation District Nos. 14 and 20 for any and all reasonable and beneficial uses, including irrigation and recharge, and to finance the acquisition and construction or installation of recycled water facilities, recharge facilities and irrigation systems.

The governing body of the Authority is a Board of Directors, which consists of five directors. The governing body of each Member appoints and designates in writing two Directors who are authorized to act for and on behalf of the Member on matters within the powers of the Authority. The person(s) appointed and designated as Director(s) are member(s) of the Member's governing board. The fifth director is appointed jointly by both Members.

The Members share in the revenues and expenses of the Authority on a 50/50 pro-rata share basis. Therefore, the District accounts for its investment in the Authority as an equity interest on the statement of net position.

For 2023, the District reports its equity interest as of the date of the last audited financial statements of the Authority as of December 31, 2023, which was audited by our firm, whose report dated June 15, 2024, expressed an unmodified opinion on those financial statements.

For 2022, the District reports its equity interest as of the date of the last audited financial statements of the Authority as of December 31, 2022, which was audited by our firm, whose report dated June 15, 2023, expressed an unmodified opinion on those financial statements.

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

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**NOTE 5 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY (continued)**

The following is the condensed financial statement of the Authority for the year ended December 31, 2023:

**Palmdale Recycled Water Authority**  
**Condensed Balance Sheet**  
**December 31, 2023**

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
<b>Assets:</b>			
Total assets	\$ 4,506,866	\$ 2,253,433	\$ 2,253,433
<b>Liabilities:</b>			
Total liabilities	38,038	19,019	19,019
<b>Net position:</b>			
Total net position	4,468,828	2,234,414	2,234,414
Total liabilities and net position	\$ 4,506,866	\$ 2,253,433	\$ 2,253,433

**Palmdale Recycled Water Authority**  
**Condensed Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended December 31, 2023**

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
<b>Operating revenues:</b>			
Total operating revenues	\$ 60,899	\$ 30,450	\$ 30,450
<b>Operating expenses:</b>			
Total operating expenses	112,096	56,048	56,048
Operating income	(51,197)	(25,599)	(25,599)
<b>Non-operating revenues:</b>			
Total non-operating revenue	106,460	53,230	53,230
Change in net position	55,263	27,632	27,632
<b>Net position:</b>			
Beginning of year	4,413,565	2,206,783	2,206,783
End of year	\$ 4,468,828	\$ 2,234,414	\$ 2,234,414

**Palmdale Recycled Water Authority**  
**Condensed Statement of Cash Flows**  
**For the Year Ended December 31, 2023**

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
<b>Cash flows from operating activities:</b>			
Net cash provided by operating activities	\$ (14,287)	\$ (7,144)	\$ (7,144)
<b>Cash flows from investing activities:</b>			
Net cash used in investing activities	(7,061)	(3,531)	(3,531)
Net increase in cash and cash equivalents	(21,348)	(10,674)	(10,674)
<b>Cash and cash equivalents:</b>			
Beginning of year	628,854	314,427	314,427
End of year	\$ 607,506	\$ 303,753	\$ 303,753
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ (51,197)	\$ (25,599)	\$ (25,599)
Depreciation	53,407	26,704	26,704
Change in assets	1,664	832	832
Change in liabilities	(18,161)	(9,081)	(9,081)
Net cash provided by operating activities	\$ (14,287)	\$ (7,144)	\$ (7,144)

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

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**NOTE 5 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY (continued)**

The following is the condensed financial statement of the Authority for the year ended December 31, 2022:

**Palmdale Recycled Water Authority**  
**Condensed Balance Sheet**  
**December 31, 2022**

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
<b>Assets:</b>			
Total assets	\$ 4,469,764	\$ 2,234,882	\$ 2,234,882
<b>Liabilities:</b>			
Total liabilities	56,199	28,100	28,100
<b>Net position:</b>			
Total net position	4,413,565	2,206,783	2,206,783
Total liabilities and net position	\$ 4,469,764	\$ 2,234,882	\$ 2,234,882

**Palmdale Recycled Water Authority**  
**Condensed Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended December 31, 2022**

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
<b>Operating revenues:</b>			
Total operating revenues	\$ 105,587	\$ 52,794	\$ 52,794
<b>Operating expenses:</b>			
Total operating expenses	106,755	53,378	53,378
Operating income	(1,168)	(584)	(584)
<b>Non-operating revenues:</b>			
Total non-operating revenue	9,769	4,885	4,885
Change in net position	8,601	4,301	4,301
<b>Net position:</b>			
Beginning of year	4,404,964	2,202,482	2,202,482
End of year	\$ 4,413,565	\$ 2,206,783	\$ 2,206,783

**Palmdale Recycled Water Authority**  
**Condensed Statement of Cash Flows**  
**For the Year Ended December 31, 2022**

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
<b>Cash flows from operating activities:</b>			
Net cash provided by operating activities	\$ 47,063	\$ 23,532	\$ 23,532
<b>Cash flows from investing activities:</b>			
Net cash used in investing activities	(311,139)	(155,570)	(155,570)
Net increase in cash and cash equivalents	(264,076)	(132,038)	(132,038)
<b>Cash and cash equivalents:</b>			
Beginning of year	892,930	446,465	446,465
End of year	\$ 628,854	\$ 314,427	\$ 314,427
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ (1,168)	\$ (584)	\$ (584)
Depreciation	53,407	26,704	26,704
Change in assets	5,873	2,937	2,937
Change in liabilities	(11,049)	(5,525)	(5,525)
Net cash provided by operating activities	\$ 47,063	\$ 23,532	\$ 23,532

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

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**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended December 31, 2023, was as follows:

Description	Balance, Jan. 1, 2023	Additions	Deletions/ Transfers	Balance, Dec. 31, 2023
<b>Non-depreciable assets:</b>				
Land and land rights	\$ 1,809,677	\$ 689,812	\$ -	\$ 2,499,489
Water rights – Armagosa Creek	2,127,355	-	-	2,127,355
Construction-in-process	17,379,306	8,987,262	(8,638,791)	17,727,777
<b>Total non-depreciable assets</b>	<b>21,316,338</b>	<b>9,677,074</b>	<b>(8,638,791)</b>	<b>22,354,621</b>
<b>Depreciable assets:</b>				
Buildings, wells and distribution system	243,266,450	7,672,466	-	250,938,916
SWP – participation rights	102,101,315	6,454,858	-	108,556,173
Machinery and equipment	12,058,307	1,063,269	(733,265)	12,388,311
<b>Total depreciable assets</b>	<b>357,426,072</b>	<b>15,190,593</b>	<b>(733,265)</b>	<b>371,883,400</b>
<b>Accumulated depreciation:</b>				
Buildings, wells and distribution system	(142,172,767)	(5,367,243)	-	(147,540,010)
SWP – participation rights	(45,704,504)	(4,492,670)	-	(50,197,174)
Machinery and equipment	(11,431,349)	(226,938)	733,265	(10,925,022)
<b>Total accumulated depreciation</b>	<b>(199,308,620)</b>	<b>(10,086,851)</b>	<b>733,265</b>	<b>(208,662,206)</b>
<b>Total depreciable assets, net</b>	<b>158,117,452</b>	<b>5,103,742</b>	<b>-</b>	<b>163,221,194</b>
<b>Right-to-use leased asset:</b>				
Vehicle fleet	699,304	-	(146,089)	553,215
<b>Accumulated amortization:</b>				
Vehicle fleet	(332,564)	(131,336)	146,089	(317,811)
<b>Total right-to-use leased asset, net</b>	<b>366,740</b>	<b>(131,336)</b>	<b>-</b>	<b>235,404</b>
<b>Total capital assets, net</b>	<b>\$ 179,800,530</b>	<b>\$ 14,649,480</b>	<b>\$ (8,638,791)</b>	<b>\$ 185,811,219</b>

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

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**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION (continued)**

Capital asset activity for the year ended December 31, 2022, was as follows:

Description	Balance, Jan. 1, 2022	Additions	Deletions/ Transfers	Balance, Dec. 31, 2022
<b>Non-depreciable assets:</b>				
Land and land rights	\$ 1,809,677	\$ -	\$ -	\$ 1,809,677
Water rights – Armagosa Creek	-	2,127,355	-	2,127,355
Construction-in-process	9,185,508	10,867,275	(2,673,477)	17,379,306
<b>Total non-depreciable assets</b>	<b>10,995,185</b>	<b>12,994,630</b>	<b>(2,673,477)</b>	<b>21,316,338</b>
<b>Depreciable assets:</b>				
Buildings, wells and distribution system	239,872,263	3,642,219	(248,032)	243,266,450
SWP – participation rights	95,744,037	6,357,278	-	102,101,315
Machinery and equipment	11,944,942	176,427	(63,062)	12,058,307
<b>Total depreciable assets</b>	<b>347,561,242</b>	<b>10,175,924</b>	<b>(311,094)</b>	<b>357,426,072</b>
<b>Accumulated depreciation:</b>				
Buildings, wells and distribution system	(137,343,554)	(5,077,245)	248,032	(142,172,767)
SWP – participation rights	(41,696,272)	(4,008,232)	-	(45,704,504)
Machinery and equipment	(11,348,608)	(145,803)	63,062	(11,431,349)
<b>Total accumulated depreciation</b>	<b>(190,388,434)</b>	<b>(9,231,280)</b>	<b>311,094</b>	<b>(199,308,620)</b>
<b>Total depreciable assets, net</b>	<b>157,172,808</b>	<b>944,644</b>	<b>-</b>	<b>158,117,452</b>
<b>Right-to-use leased asset:</b>				
Vehicle fleet	648,230	95,195	(44,121)	699,304
<b>Accumulated amortization:</b>				
Vehicle fleet	(239,840)	(136,845)	44,121	(332,564)
<b>Total right-to-use leased asset, net</b>	<b>408,390</b>	<b>(41,650)</b>	<b>-</b>	<b>366,740</b>
<b>Total capital assets, net</b>	<b>\$ 168,576,383</b>	<b>\$ 13,897,624</b>	<b>\$ (2,673,477)</b>	<b>\$ 179,800,530</b>

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION (continued)**

**Construction-In-Process**

The balance consists of the following projects:

Project Description	Balance	Balance	Balance
	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2023
Sediment removal - Littlerock Dam	\$ -	\$ -	\$ -
Palmdale Regional Groundwater Recharge Project	4,209,279	4,209,279	4,209,279
Grade control structure – Littlerock Dam	-	-	-
2020 Meter Exchange Project	294,302	907,390	-
2950 Zone Booster @3M Clearwell	163,032	223,981	595,224
Upper Armagosa Creek project	2,127,355	-	-
45th St Tank Site - Altitude Valve Replacement	127,466	492,768	100,598
Well 36 - Construction	265,377	2,182,284	2,998,268
Well 14 - Rehabilitation	145,816	157,578	-
2021 Large Meter/Vault Replacement Program	276,153	-	-
2022 Large Meter/Vault Replacement Program	-	188,202	190,023
Sierra Hwy Tie-in @ Harold St	709,889	811,764	-
Spec 1206 - ML Replacement Division/Q	72,701	2,562,044	-
Pure Water AV - Design (Demonstration)	-	1,085,726	2,271,581
Spec 1901 - ML Replace Avenue P	64,687	582,608	-
Pure Water AV - Planning	-	576,562	787,009
Water Main Replacement 5th St & Q1 thru Q5	17,077	355,257	-
John Deere 30 SL Backhoe (2)	-	257,468	-
Well 8 Rehabilitation	-	367,764	-
Main Office- Stucco Repair	11,935	222,183	-
Well 32 Rehabilitation	-	196,615	-
Water Main Replacement E Ave Q10 & 12th St	5,947	174,356	-
Well 26 Submersible Pump	-	143,899	-
NaOCL Replacement System - WTP	1,517	137,491	1,289,064
2015 Kenworth T370 Crane	-	133,419	133,419
Ditch Conversion	-	-	601,106
Destruction & Construction Recycling Water Pipeline	-	-	121,131
Well 15 - Discharge Basin	-	-	236,186
50-PPD Sodium Hypo Units	-	-	137,620
Well 15 - Rehabilitation	-	-	595,671
2022 Large Meter/Vault Replacement Program	-	-	190,023
8" WM Camares Dr	-	-	1,237,200
2023 Furniture Upgrade	-	-	102,510
600ft Steel PVC 42nd Street	-	-	212,141
Various other minor projects <\$100,000	692,975	1,410,668	1,719,724
Total construction-in-process	<u>\$ 9,185,508</u>	<u>\$ 17,379,306</u>	<u>\$ 17,727,777</u>

**Armagosa Creek Project – Water Rights**

In December 2013, the District entered into with the City of Palmdale (City), Antelope Valley-East Kern Water Agency (AVEK), and Los Angeles County Waterworks District No. 40, Antelope Valley (Waterworks), to construct and later maintain, the Amargosa Creek Flood Control, Recharge, and Habitat Restoration Project (Project). Each Party contributed 25% of the funds required to complete the project and in turn received a 25% share of the project and water rights. The project was completed in 2022. The District's total share of the costs to complete the project was \$2,127,355.

## **PALMDALE WATER DISTRICT**

### *Notes to Financial Statements*

*December 31, 2023 and 2022*

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#### **NOTE 6 – CAPITAL ASSETS AND DEPRECIATION (continued)**

##### **State Water Project – Participation Rights**

In 1963, the District contracted with the State of California (the State) for 1,620 acre-feet per year of water from the State Water Project (SWP). In subsequent years, the annual entitlement increased to 21,300 acre-feet. The SWP distributes water from Northern California to Southern California through a system of reservoirs, canals, pumps stations, and power generation facilities.

The District is one of many participants contracting with the State of California Department of Water Resources (DWR) for a system to provide water throughout California. Under the terms of the State Water Contract, as amended, the District is obligated to pay allocable portions of the cost of construction of the system and ongoing operations and maintenance costs through at least the year 2035, regardless of the quantities of water available from the project. The District and the other contractors may also be responsible to the State for certain obligations by any contractor who defaults on its payments to the State.

Management's present intention is to exercise the District's option to extend the contractual period to at least 2052, under substantially comparable terms. This corresponds to an estimated 80-year service life for the original facilities. The State is obligated to provide specific quantities of water throughout the life of the contract, subject to certain conditions.

In addition to system on-aqueduct power facilities, the State has, either on their own or through joint ventures financed certain off-aqueduct power facilities (OAPF). The power generated is utilized by the system for water transportation and distribution purposes. Power generated in excess of system needs is marketed to various utilities and California's power market.

The District is entitled to a proportionate share of the revenues resulting from sales of excess power. The District and the other water providers are responsible for repaying the capital and operating costs of the OAPF regardless of the amount of power generated.

The District capitalizes its share of system construction costs as participation rights in the State water facilities when such costs are billed by the DWR. Unamortized participation rights essentially represent a prepayment for future water deliveries through the State system. The District's share of system operations and maintenance costs is charged to expenses as incurred.

The District amortizes a portion of capitalized participation rights each year using a formula that considers the total estimated cost of the project, estimated useful life and estimated production capacity of the assets based upon information provided by the State of California. The participation rights have been included with the District's capital assets as shown in the schedule of changes in capital assets.

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 7 – RIGHT-TO-USE LEASED ASSET AND RIGHT-TO-USE LEASE PAYABLE

Changes in right-to-use leased payable for fiscal year ending December 31, 2023 was as follows:

<u>Balance, Jan. 1, 2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, Dec. 31, 2023</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 355,714	\$ -	\$ (127,074)	\$ 228,640	\$ 109,022	\$ 119,618

Changes in right-to-use leased payable for fiscal year ending December 31, 2022 was as follows:

<u>Balance, Jan. 1, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, Dec. 31, 2022</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 396,586	\$ 95,195	\$ (136,067)	\$ 355,714	\$ 126,686	\$ 229,028

Annual debt service requirements for the right-to-use lease payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 109,022	\$ 1,458	\$ 110,480
2025	70,693	323	71,016
2026	37,925	566	38,491
2027	11,000	79	11,079
Total	228,640	\$ 2,426	\$ 231,066
Less: current	(109,022)		
Total non-current	\$ 119,618		

The District is reporting a total right-to-use leased asset, net of \$235,404 and a right-to-use lease payable of \$228,640 for the year ending December 31, 2023. Also, the District is reporting total amortization expense of \$131,336, principal payments of \$127,074 and interest expense of \$7,499 related to the above noted leases.

The lease held by the District does not have an implicit rate of return, therefore the District used their incremental borrowing rate of 2.00% to discount the lease payments to the net present value. In some cases, leases contain termination clauses. In these cases, the clause requires the lessee or lessor to show cause to terminate the lease.

The District's lease is summarized as follows:

#### Vehicle Fleet

The District leases its fleet of vehicles from Enterprise FM Trust with terms for individual vehicles ranging from 48 to 60 months. An initial right-to-use liability was recorded on January 1<sup>st</sup>, 2022, in the amount of \$396,586. The District's monthly payments vary based on invoiced amounts determined by the number of vehicles leased, as well as any costs associated with initiating or concluding a lease for an individual vehicle. The leases have an implied interest rate of 2%. The District is amortizing the right-to-use asset of \$553,215 at \$10,945 per month. As of December 31, 2023, the District had 26 leased fleet vehicles.



**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

**NOTE 8 – COMPENSATED ABSENCES**

Summary changes to compensated absences balances for the year ended December 31, 2023, were as follows:

<u>Balance, Jan. 1, 2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, Dec. 31, 2023</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 712,863	\$ 677,496	\$ (590,423)	\$ 799,936	\$ 199,984	\$ 599,952

Summary changes to compensated absences balances for the year ended December 31, 2022, were as follows:

<u>Balance, Jan. 1, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, Dec. 31, 2022</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 674,816	\$ 719,853	\$ (681,806)	\$ 712,863	\$ 178,216	\$ 534,647

**NOTE 9 – LONG-TERM DEBT**

Changes in long-term debt for the year ended December 31, 2023, were as follows:

<u>Long-Term Debt</u>	<u>Balance, Jan. 1, 2023</u>	<u>Additions/ Adjustments</u>	<u>Payments/ Amortization</u>	<u>Balance, Dec. 31, 2023</u>	<u>Current Portion</u>	<u>Non-Current Portion</u>
Direct finance purchase – 2022	2,400,000	-	(447,281)	1,952,719	463,073	1,489,646
Loan payable – 2012	1,342,628	-	(1,342,628)	-	-	-
Revenue bonds payable – 2013	8,240,000	-	(8,240,000)	-	-	-
Revenue bonds payable – discount	(89,240)	-	89,240	-	-	-
Revenue bonds payable – premium	2,208,407	-	(2,208,407)	-	-	-
Revenue bonds payable, net – 2013	10,359,167	-	(10,359,167)	-	-	-
Revenue bonds payable - 2018	12,555,000	-	(265,000)	12,290,000	275,000	12,015,000
Revenue bonds payable - premium	953,927	-	(37,046)	916,881	-	916,881
Revenue bonds payable, net - 2018	13,508,927	-	(302,046)	13,206,881	275,000	12,931,881
Revenue refunding bonds - non-taxable -	8,952,691	-	(13,337)	8,939,354	13,776	8,925,578
Revenue refunding bonds - taxable - 2020	14,190,000	-	(165,000)	14,025,000	170,000	13,855,000
Revenue refunding bonds - 2020	23,142,691	-	(178,337)	22,964,354	183,776	22,780,578
Revenue bonds - 2021A	9,390,000	-	-	9,390,000	-	9,390,000
Revenue refunding bonds - 2021	10,356,500	-	(209,680)	10,146,820	212,890	9,933,930
Revenue bonds payable - premium	835,880	-	(29,244)	806,636	-	806,636
Revenue bonds payable, net - 2021	20,582,380	-	(238,924)	20,343,456	212,890	20,130,566
Revenue bonds - 2023A	-	21,225,000	-	21,225,000	-	21,225,000
Revenue bonds payable - premium	-	434,717	(6,317)	428,400	-	428,400
Revenue bonds payable, net - 2023	-	21,659,717	(6,317)	21,653,400	-	21,653,400
Total long-term debt	\$ 71,335,793	\$ 21,659,717	\$ (12,874,700)	\$ 80,120,810	\$ 1,134,739	\$ 78,986,071

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

**NOTE 9 – LONG-TERM DEBT (continued)**

Changes in long-term debt for the year ended December 31, 2022, were as follows:

<b>Long-Term Debt</b>	<b>Balance, Jan. 1, 2022</b>	<b>Additions/ Adjustments</b>	<b>Payments/ Amortization</b>	<b>Balance, Dec. 31, 2022</b>	<b>Current Portion</b>	<b>Non-Current Portion</b>
Direct finance purchase – 2017	\$ 88,250	\$ -	\$ (88,250)	\$ -	\$ -	\$ -
Direct finance purchase – 2022	-	2,400,000	-	2,400,000	447,281	1,952,719
Loan payable – 2012	2,643,024	-	(1,300,396)	1,342,628	1,342,628	-
Revenue bonds payable – 2013	8,835,000	-	(595,000)	8,240,000	620,000	7,620,000
Revenue bonds payable – discount	(93,541)	-	4,301	(89,240)	-	(89,240)
Revenue bonds payable – premium	2,314,836	-	(106,429)	2,208,407	-	2,208,407
Revenue bonds payable, net – 2013	11,056,295	-	(697,128)	10,359,167	620,000	9,739,167
Revenue bonds payable - 2018	12,805,000	-	(250,000)	12,555,000	265,000	12,290,000
Revenue bonds payable - premium	990,973	-	(37,046)	953,927	-	953,927
Revenue bonds payable, net - 2018	13,795,973	-	(287,046)	13,508,927	265,000	13,243,927
Revenue refunding bonds - non-taxable -	8,965,604	-	(12,913)	8,952,691	13,337	8,939,354
Revenue refunding bonds - taxable - 2020	14,355,000	-	(165,000)	14,190,000	165,000	14,025,000
Revenue refunding bonds - 2020	23,320,604	-	(177,913)	23,142,691	178,337	22,964,354
Revenue bonds - 2021A	9,390,000	-	-	9,390,000	-	9,390,000
Revenue refunding bonds - 2021	10,549,330	-	(192,830)	10,356,500	209,680	10,146,820
Revenue bonds payable - premium	865,124	-	(29,244)	835,880	-	835,880
Revenue bonds payable, net - 2021	20,804,454	-	(222,074)	20,582,380	209,680	20,372,700
<b>Total long-term debt</b>	<b>\$ 71,708,600</b>	<b>\$ 2,400,000</b>	<b>\$ (2,772,807)</b>	<b>\$ 71,335,793</b>	<b>\$ 3,062,926</b>	<b>\$ 68,272,867</b>

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 9 – LONG-TERM DEBT (continued)

##### A. Direct Finance Purchase – 2017

On January 18, 2017, the District entered into an \$830,000 installment purchase agreement in order to acquire, construct, equip, and furnish certain improvements to its facilities. Direct purchase financing payments consisting of principal and interest in the amount of \$89,477 are due every six months beginning in July 2017 until January 2022 at an annual interest rate of 2.78%. The balance of the direct finance purchase was paid in full as of December 31, 2022.

##### Direct Finance Purchase – 2022

On October 10, 2022, the District entered into a \$2,400,000 installment purchase agreement in order to acquire, construct, equip, and furnish certain improvements to its facilities. The agreement contains a buyout provision that can be exercised beginning in year three of the agreement. Right-to-use lease financing payments consisting of principal and interest in the amount of \$263,701 are due every six months beginning in April 2023 until October 2027 at an annual interest rate of 3.50%. The balance of the direct finance purchase was \$1,952,719 as of December 31, 2023.

Annual debt service requirements for the direct finance purchase are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 463,073	\$ 64,328	\$ 527,401
2025	479,423	47,979	527,402
2026	496,349	31,053	527,402
2027	513,874	13,528	527,402
Total	1,952,719	\$ 156,888	\$ 2,109,607
Less: current	<u>(463,073)</u>		
Total non-current	<u>\$ 1,489,646</u>		

##### B. Loan Payable – 2012

In November 2012, the District issued \$12,765,208 in a private-placement Loan Payable-2012, with maturities from 2013 through 2023 and an interest rate of 3.10%. The net proceeds of the issuance were used to advance refund (an in-substance defeasance) \$12,505,000 of aggregate principal amount of the District's COPs-1998 with an average interest rate of 4.73%. The District has pledged 100% of its water revenues to collateralize the debt.

The initial escrow deposit was used to purchase government sponsored agency obligation securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the COPs-1998.

The advance refunding resulted in a difference between the reacquisition price and the net carrying value amount of the old debt of \$846,845. This difference is being amortized through 2023 (the life of the debt) using the straight-line method as a deferred loss on debt defeasance. The District completed the advance refunding to reduce its total debt service payments over the next 11 years by approximately \$1.293 million and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$1.154 million. The balance of the loan payable was paid in full as of December 31, 2023.

## **PALMDALE WATER DISTRICT**

### *Notes to Financial Statements*

*December 31, 2023 and 2022*

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#### **NOTE 9 – LONG-TERM DEBT (continued)**

##### **C. Revenue Bonds Payable**

###### **Certificates of Participation – 2004**

In August 2004, the District issued \$38,285,000 of Certificates of Participation-2004 (COPs-2004), with maturities from 2008 through 2034 and an average interest rate of 4.90%. The net proceeds are to be used to finance the acquisition, construction, and improvement of certain water facilities and to pay issuance costs of the debt. Issuance of the COPs-2004 resulted in a premium of \$328,767 which was being amortized over the life of the issue using the straight-line method. In 2013, the District advanced refunded the remaining \$35,560,000 of the COPs-2004 into the revenue bonds payable issuance.

###### **Revenue Bonds Payable – 2013**

The Palmdale Water District Public Financing Authority (Authority) issued \$44,350,000 in Revenue Bonds Payable-2013 (Bonds-2013) with maturities from 2013 through 2043 with an interest rate range between 2.00% and 5.00% pursuant to an Indenture of Trust, dated as of May 1, 2013, by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The Bonds-2013 were issued: (i) to prepay the District's outstanding Certificates of Participation-2004; (ii) to finance certain improvements to the District's Water System; (iii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the Bonds-2013 in case of default; (iv) to purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund; and (v) to pay the costs of issuing the Bonds-2013. The District has pledged 100% of its water revenues to collateralize the debt.

The refunding resulted in a premium on the issuance of \$3,228,354 and a discount of (\$130,456) which are being amortized over the remaining debt service years. Principal and interest payments are due in April and October of each year.

The advance refunding resulted in a difference between the reacquisition price and the net carrying value amount of the old debt of \$2,278,663. This difference is being amortized through 2043 (the life of the debt) using the straight-line method as a deferred amount on debt defeasance.

In 2021, the District advanced refunded \$21,220,000 of debt service payments from 2031 to 2043 by issuing a non-taxable and a taxable issue.

In 2022, the District advanced refunded \$9,530,000 of debt service payments from 2025 to 2028 by issuing a bond.

In 2023, the District advanced refunded the remaining \$8,240,000 of the Revenue Bonds – 2013 into a 2023 revenue bonds payable issuance.

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

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**NOTE 9 – LONG-TERM DEBT (continued)**

**C. Revenue Bonds Payable (continued)**

**Deferred Amount on Debt Defeasance, Net**

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2023, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2023</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2023</u>
Deferred amount on debt defeasance, net	\$ 1,452,336	\$ -	\$ (1,452,336)	\$ -

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2022, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2022</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2022</u>
Deferred amount on debt defeasance, net	\$ 1,695,054	\$ -	\$ (242,718)	\$ 1,452,336

**Revenue Bonds Payable – 2018**

The Palmdale Water District Public Financing Authority (Authority) issued \$12,805,000 in Water Revenue Bonds, Series 2018A (2018A Bonds) with maturities from 2022 through 2048 with an interest rate range between 3.125% and 5.00% pursuant to an Indenture of Trust, dated as of June 1, 2018, by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The 2018A Bonds are being issued: (i) to finance certain improvements to the District’s water system, including Littlerock Dam; (ii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the 2018A Bonds; (iii) to purchase a municipal bond debt service reserve insurance policy in case of default; and (iv) to pay the costs of issuing the 2018A Bonds. The District has pledged 100% of its water revenues to collateralize the debt. Interest due on the 2018A Bonds is payable semiannually on April 1 and October 1 of each year, commencing October 1, 2018, while principal payments are payable on October 1 of each year, commencing October 1, 2022.

**PALMDALE WATER DISTRICT**

*Notes to Financial Statements*

*December 31, 2023 and 2022*

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**NOTE 9 – LONG-TERM DEBT (continued)**

**C. Revenue Bonds Payable (continued)**

**Revenue Bonds Payable – 2018 (continued)**

The 2018A Bond issuance resulted in a \$1,120,632 premium which is being amortized over the remaining debt service years. Cost of the debt issuance was \$308,867 which was expensed in the year of issuance. Annual debt service requirements for the revenue bonds payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 275,000	\$ 545,794	\$ 820,794
2025	290,000	532,044	822,044
2026	305,000	517,544	822,544
2027	320,000	502,294	822,294
2028	335,000	486,294	821,294
2029-2033	1,940,000	2,162,969	4,102,969
2034-2038	2,350,000	1,751,200	4,101,200
2039-2043	2,865,000	1,236,000	4,101,000
2044-2048	<u>3,610,000</u>	<u>489,875</u>	<u>4,099,875</u>
Total	12,290,000	<u>\$ 8,224,014</u>	<u>\$ 20,514,014</u>
Less: current	<u>(275,000)</u>		
Total non-current	<u>\$ 12,015,000</u>		

**Revenue Refunding Bonds – Non-Taxable – 2020**

In May 2020, the Palmdale Water District Public Financing Authority (Authority) issued \$9,008,523 in Revenue Refunding Bonds – Non-Taxable – Series 2020 (Bonds-2020) with maturities from 2020 through 2043 with an interest rate range coupon of 3.29% pursuant to a private placement, dated as of May 28, 2020, by and between the Authority and Western Alliance Bank as a private-placement. The Bonds-2020 were issued: (i) to prepay the \$8,810,000 of District’s outstanding Bonds-2013 principal from 2035 to 2043; and (ii) to pay the costs of issuing the Bonds-2020 of \$130,000. The District has pledged 100% of its water revenues to collateralize the debt. Principal and interest payments are due in April and October of each year.

The advance refunding resulted in a net present value benefit to the District of \$751,628 in interest savings from the refunding.

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 9 – LONG-TERM DEBT (continued)

##### C. Revenue Bonds Payable (continued)

###### Revenue Refunding Bonds – Non-Taxable – 2020 (continued)

Annual debt service requirements for the revenue refunding bonds payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 13,776	\$ 294,105	\$ 307,881
2025	14,229	293,652	307,881
2026	14,698	293,183	307,881
2027	15,181	292,700	307,881
2028	15,681	292,200	307,881
2029-2033	86,488	1,452,916	1,539,404
2034-2038	3,594,542	1,270,062	4,864,604
2039-2043	5,184,759	522,645	5,707,404
Total	8,939,354	\$ 4,711,463	\$ 13,650,817
Less: current	(13,776)		
Total non-current	\$ 8,925,578		

###### Revenue Refunding Bonds – Taxable – 2020

In November 2020, the Palmdale Water District Public Financing Authority (Authority) issued \$14,555,000 in Revenue Refunding Bonds – Taxable – Series 2020 (Bonds-2020 Taxable) with maturities from 2020 through 2034 with an interest rate coupon of 2.79% pursuant to an Indenture of Trust, dated as of November 3, 2020, by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The Bonds-2020 Taxable were issued: (i) to prepay the \$12,410,000 of District's outstanding Bonds-2013 principal from 2031 to 2034; (ii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the Bonds-2020 Taxable in case of default; and (iii) to pay the costs of issuing the Bonds-2020 Taxable \$268,953. The District has pledged 100% of its water revenues to collateralize the debt. Principal and interest payments are due in October of each year.

The advance refunding resulted in a difference between the reacquisition price and the net carrying value amount of the old debt of \$1,795,890. This difference is being amortized through 2034 (the life of the debt) using the straight-line method as a deferred amount on debt defeasance.

The advance refunding resulted in a net present value benefit to the District of \$784,897 in interest savings from the refunding.

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

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**NOTE 9 – LONG-TERM DEBT (continued)**

**C. Revenue Bonds Payable (continued)**

**Revenue Refunding Bonds – Taxable – 2020 (continued)**

Annual debt service requirements for the revenue refunding bonds payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 170,000	\$ 386,290	\$ 556,290
2025	170,000	384,305	554,305
2026	170,000	381,894	551,894
2027	175,000	378,870	553,870
2028	180,000	375,476	555,476
2029-2033	9,825,000	1,571,941	11,396,941
2034	3,335,000	98,748	3,433,748
Total	14,025,000	<u>\$ 3,577,524</u>	<u>\$ 17,602,524</u>
Less: current	<u>(170,000)</u>		
Total non-current	<u>\$ 13,855,000</u>		

**Deferred Amount on Debt Defeasance, Net**

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2023, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2023</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2023</u>
Deferred amount on debt defeasance, net	<u>\$ 1,591,488</u>	<u>\$ -</u>	<u>\$ (1,591,488)</u>	<u>\$ -</u>

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2022, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2022</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2022</u>
Deferred amount on debt defeasance, net	<u>\$ 1,724,110</u>	<u>\$ -</u>	<u>\$ (132,622)</u>	<u>\$ 1,591,488</u>

**Water Revenue Bonds – Non-Taxable – 2021**

In July 2021, the Palmdale Water District Public Financing Authority (Authority) issued \$9,390,000 in Water Revenue Bonds – Series 2021A (Bonds-2021A) with maturities from 2021 through 2051 with an interest rate range coupon of 4.00% by and between the Authority and the Bank of New York Mellon Trust Company. The Bonds-2021A were issued: (i) to finance certain improvements to the District’s Water system; and (ii) to pay the costs of issuing the Bonds-2021A of \$267,309. The District has pledged 100% of its water revenues to collateralize the debt. The issuance resulted in a premium on the issuance of \$877,309 which is being amortized over the remaining debt service years. Principal and interest payments are due in April and October of each year as noted.



## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 9 – LONG-TERM DEBT (continued)

##### C. Revenue Bonds Payable (continued)

###### Water Revenue Bonds – Series 2021A (continued)

Annual debt service requirements for the revenue refunding bonds payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ -	\$ 299,725	\$ 299,725
2025	-	299,725	299,725
2026	-	299,725	299,725
2027	-	299,725	299,725
2028	-	299,725	299,725
2029-2033	-	1,498,625	1,498,625
2034-2038	1,765,000	1,396,425	3,161,425
2039-2043	2,550,000	1,024,813	3,574,813
2044-2048	3,035,000	541,650	3,576,650
2049-2051	2,040,000	102,750	2,142,750
Total	9,390,000	<u>\$ 6,062,888</u>	<u>\$ 15,452,888</u>
Less: current	-	-	-
Total non-current	<u>\$ 9,390,000</u>	-	-

###### Revenue Refunding Bonds – 2021

In August 2021, the Palmdale Water District Public Financing Authority (Authority) issued \$10,549,330 in Revenue Refunding Bonds – 2021 (Bonds-2021) with maturities from 2021 through 2028 with an interest rate coupon of 1.53% pursuant to an Installment Purchase Agreement dated August 31, 2021. The Bonds-2021 were issued: (i) to prepay the \$9,530,000 of District’s outstanding Bonds-2013 principal from 2025 to 2028; (ii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the Bonds-2021 in case of default; and (iii) to pay the costs of issuing the Bonds-2021 \$115,000. The District has pledged 100% of its water revenues to collateralize the debt. Principal and interest payments are due in October of each year.

The advance refunding resulted in a difference between the reacquisition price and the net carrying value amount of the old debt of \$734,960. This difference is being amortized through 2028 (the life of the debt) using the straight-line method as a deferred amount on debt defeasance.

The advance refunding resulted in a net present value benefit to the District of \$719,502 in interest savings from the refunding.

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
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**NOTE 9 – LONG-TERM DEBT (continued)**

**C. Revenue Bonds Payable (continued)**

**Revenue Refunding Bonds – Series 2021 (continued)**

Annual debt service requirements for the revenue refunding bonds payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 212,890	\$ 154,432	\$ 367,322
2025	2,426,140	142,709	2,568,849
2026	2,467,760	105,430	2,573,190
2027	2,499,270	67,553	2,566,823
2028	2,540,760	29,155	2,569,915
Total	10,146,820	\$ 499,279	\$ 10,646,099
Less: current	(212,890)		
Total non-current	\$ 9,933,930		

**Deferred Amount on Debt Defeasance, Net**

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2023, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2023</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2023</u>
Deferred amount on debt defeasance, net	\$ 539,970	\$ -	\$ (539,970)	\$ -

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2023, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2022</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2022</u>
Deferred amount on debt defeasance, net	\$ 629,966	\$ -	\$ (89,996)	\$ 539,970

**Revenue Refunding Bonds – 2023**

In September 2023, the Palmdale Water District Public Financing Authority (Authority) issued \$21,225,000 in Revenue Refunding Bonds – 2023 (Bonds-2023) with maturities from 2050 through 2053 with an interest rate coupon of 4.125% to 5.000% pursuant to an Installment Purchase Agreement dated September 26, 2023. The Bonds-2023 were issued: (i) to prepay the \$7,655,000 of District’s outstanding Bonds-2013 principal from 2025 to 2028; (ii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the Bonds-2023 in case of default; and (iii) to pay the costs of issuing the Bonds-2023 \$327,759; and (iv) to provide \$13,570,000 in new money to fund various capital projects at the District. The District has pledged 100% of its water revenues to collateralize the debt. Principal and interest payments are due in October of each year.

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
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**NOTE 9 – LONG-TERM DEBT (continued)**

**C. Revenue Bonds Payable (continued)**

**Revenue Refunding Bonds – 2023 (continued)**

The advance refunding resulted in a difference between the reacquisition price and the net carrying value amount of the old debt of \$1,191,324. This difference is being amortized through 2053 (the life of the debt) using the straight-line method as a deferred amount on debt defeasance.

Annual debt service requirements for the revenue refunding bonds payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ -	\$ 997,743	\$ 997,743
2025	-	984,075	984,075
2026	-	984,075	984,075
2027	-	984,075	984,075
2028	-	984,075	984,075
2029-2033	-	4,920,375	4,920,375
2034-2038	-	4,920,375	4,920,375
2039-2043	-	4,920,375	4,920,375
2044-2048	2,285,000	4,920,375	7,205,375
2049-2053	18,940,000	2,943,388	21,883,388
Total	21,225,000	<u>\$ 27,558,931</u>	<u>\$ 48,783,931</u>
Less: current	-		
Total non-current	<u>\$ 21,225,000</u>		

**Deferred Amount on Debt Defeasance, Net**

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2023, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2023</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2023</u>
Deferred amount on debt defeasance, net	\$ -	\$ 1,191,324	\$ (13,224)	\$ 1,178,100

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

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**NOTE 10 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION**

**Summary**

The following balances on the balance sheet will be addressed in this footnote as follows:

<u>Description</u>	<u>2023</u>	<u>2022</u>
OPEB related deferred outflows	\$ 2,477,984	\$ 2,887,977
Net other post-employment benefits obligation	12,118,384	13,275,385
OPEB related deferred inflows	5,252,471	4,502,897

**Plan Description - Eligibility**

The District administers its post-employment benefits plan, a single-employer defined benefit plan (the Plan). The following requirements must be satisfied in order to be eligible for post-employment medical, dental, and vision benefits: (1) Attainment of age 55, and 20 years for full-time service, and (2) retirement from the District (the District must be the last employer prior to retirement).

**Plan Description - Benefits**

The District offers post-employment medical, dental, and vision benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the ACWA-JPIA medical, dental, and vision programs. The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The following is a description of the current retiree benefit plan:

	<u>Participants</u>
Benefit types provided	Medical, dental and vision
Duranton of benefits	Lifetime
Required service	CalPERS Retirement and 20 years service
Minimum age	55 years and CalPERS Retirement from District
Dependent coverage	Spouse and dependent up to cap
District contribution	Maximum up to \$1,850 cap
District cap on coverage	\$1,850

**Employees covered by benefit terms**

At December 31, 2023 and 2022, the following employees were covered by the benefit terms:

<u>Plan Members</u>	<u>Covered Participants</u>	
	<u>2023</u>	<u>2022</u>
Active members	82	86
Inactives entitled to but not yet receiving benefits	-	-
Inactives currently receiving benefits	28	27
<b>Total plan members</b>	<b>110</b>	<b>113</b>

**PALMDALE WATER DISTRICT**

*Notes to Financial Statements*

*December 31, 2023 and 2022*

**NOTE 10 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)**

**A. Total OPEB Liability**

The District’s total OPEB liabilities of \$12,118,384 and \$13,275,385 as of December 31, 2023 and 2022, respectively, were measured as of December 31, 2022 and 2021 (Measurement Dates), and were determined by an actuarial valuation as of December 31, 2021.

**Actuarial assumptions and other inputs**

The total OPEB liability in the December 31, 2022 and 2021 (Measurement Dates) actuarial valuation roll-forwards were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>2023</u>	<u>2022</u>
Discount Rate	3.72%	2.06%
Inflation	2.50%	2.50%
Salary Increases	2.75% per annum, in aggregate	2.75% per annum, in aggregate
Investment Rate of Return	2.06%	2.06%
Mortality Rate	CalPERS Membership Data	CalPERS Membership Data
Pre-Retirement Turnover	CalPERS Membership Data	CalPERS Membership Data
Healthcare Trend Rate	Non-Medicare 8.5% to Medicare 7.5%	Non-Medicare 6.5% to Medicare 5.65%

Mortality, Retirement & Turnover Assumptions

The mortality assumptions are based on the 1997-2015 Experience Study for CalPERS Active and Retiree Mortality for Miscellaneous and Safety Employees table created by CalPERS.

Discount Rate

The discount rate used to measure the total OPEB liability was 2.06% as of December 31, 2022 and 2.12% as of December 31, 2021. The projection of cash flows used to determine the discount rate assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. The Bond Buyer 20 Bond Index was used.

**B. Changes in the Total OPEB Liability**

The following table is based on the roll-forward of the December 31, 2022 (Measurement Date) actuarial valuation:

	<u>Total OPEB Liability</u>
<b>Balance at January 1, 2023 (MD Jan. 1, 2022)</b>	<u>\$ 13,275,385</u>
<b>Changes for the year:</b>	
Service cost	622,927
Interest	281,830
Assumption changes	(2,166,653)
Actual vs expected experience	539,319
Benefit payments	<u>(434,424)</u>
Net changes	<u>(1,157,001)</u>
<b>Balance at December 31, 2023 (MD Dec. 31, 2022)</b>	<u>\$ 12,118,384</u>

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
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**NOTE 10 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)**

**B. Changes in the Total OPEB Liability (continued)**

The following table is based on the roll-forward of the December 31, 2021 (Measurement Date) actuarial valuation:

	<u>Total OPEB Liability</u>
<b>Balance at January 1, 2022 (MD Jan. 1, 2021)</b>	<u>\$ 12,751,874</u>
<b>Changes for the year:</b>	
Service cost	596,605
Interest	278,018
Assumption changes	117,793
Benefit payments	<u>(468,905)</u>
Net changes	<u>523,511</u>
<b>Balance at December 31, 2022 (MD Dec. 31, 2021)</b>	<u>\$ 13,275,385</u>

**Sensitivity of the total OPEB liability to changes in the discount rate**

The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate.

The following table is based on the December 31, 2022 (Measurement Date) actuarial valuation:

<u>1% Decrease</u> <u>2.72%</u>	<u>Discount Rate</u> <u>3.72%</u>	<u>1% Increase</u> <u>4.72%</u>
<u>\$ 13,947,542</u>	<u>\$ 12,118,384</u>	<u>\$ 10,614,670</u>

The following table is based on the December 31, 2021 (Measurement Date) actuarial valuation:

<u>1% Decrease</u> <u>1.06%</u>	<u>Discount Rate</u> <u>2.06%</u>	<u>1% Increase</u> <u>3.06%</u>
<u>\$ 15,475,203</u>	<u>\$ 13,275,385</u>	<u>\$ 11,489,554</u>

**PALMDALE WATER DISTRICT**

*Notes to Financial Statements*

*December 31, 2023 and 2022*

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**NOTE 10 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)**

**B. Changes in the Total OPEB Liability (continued)**

**Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates**

The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates.

The following table is based on the December 31, 2022 (Measurement Date) actuarial valuation:

<u>1% Decrease</u>	<u>Healthcare Cost Current Trend</u>	<u>1% Increase</u>
<u>\$ 10,377,099</u>	<u>\$ 12,118,384</u>	<u>\$ 14,330,945</u>

The following table is based on the December 31, 2021 (Measurement Date) actuarial valuation:

<u>1% Decrease</u>	<u>Healthcare Cost Current Trend</u>	<u>1% Increase</u>
<u>\$ 11,045,032</u>	<u>\$ 13,275,385</u>	<u>\$ 16,180,025</u>

**C. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended December 31, 2023 and 2022, the District recognized OPEB expense/(credit) of \$467,357 and \$616,051, respectively.

At December 31, 2023, the District reported \$2,477,984 of deferred outflows of resources and \$5,252,471 of deferred inflows of resources for related to the net OPEB obligation as follows:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date of the net OPEB liability	\$ 464,791	\$ -
Changes in assumptions	2,013,193	(2,507,119)
Net difference in earnings on plan investments	-	(2,745,352)
Total	<u>\$ 2,477,984</u>	<u>\$ (5,252,471)</u>

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

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**NOTE 10 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)**

**C. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)**

At December 31, 2023, the District reported \$464,791 of deferred outflows of resources for employer contributions made subsequent to the measurement date which will be used to reduce the net OPEB liability balance in the coming year. Amortization of the remaining deferred outflows/(inflows) of resources related to the net OPEB obligation is as follows:

	<u>Amount</u>
Year Ended June 30:	
2024	\$ (437,400)
2025	(437,400)
2026	(453,201)
2027	(485,947)
2028	(428,587)
Thereafter	<u>(996,743)</u>
Total	<u>\$ (3,239,278)</u>

At December 31, 2022, the District reported \$2,887,977 of deferred outflows of resources and \$4,502,897 of deferred inflows of resources for related to the net OPEB obligation as follows:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date of the net OPEB liability	\$ 434,424	\$ -
Changes in assumptions	2,453,553	(730,813)
Net difference in earnings on plan investments	<u>-</u>	<u>(3,772,084)</u>
Total	<u>\$ 2,887,977</u>	<u>\$ (4,502,897)</u>



**PALMDALE WATER DISTRICT**

*Notes to Financial Statements*

*December 31, 2023 and 2022*

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**NOTE 10 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)**

**C. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)**

At December 31, 2022, the District reported \$434,424 of deferred outflows of resources for employer contributions made subsequent to the measurement date which will be used to reduce the net OPEB liability balance in the coming year. Amortization of the remaining deferred outflows/(inflows) of resources related to the net OPEB obligation is as follows:

	<u>Amount</u>
Year Ended June 30:	
2022	\$ (258,572)
2023	(258,572)
2024	(258,572)
2025	(274,373)
2026	(307,119)
Thereafter	<u>(692,136)</u>
Total	<u>\$ (2,049,344)</u>

**NOTE 11 – PENSION PLAN**

**Summary**

The following balances on the balance sheet will be addressed in this footnote as follows:

<u>Description</u>	<u>2023</u>	<u>2022</u>
Pension related deferred outflows	\$ 5,348,034	\$ 5,234,679
Net pension liability	15,115,381	13,730,102
Pension related deferred inflows	552,482	771,264

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by agencies of the State of California known as the California Public Employees' Retirement System (CalPERS), or "The Plan". The net pension liability balances have a Measurement Date of June 30, 2023 and June 30, 2022, respectively, which are rolled-forward for the District's fiscal years ended December 31, 2023 and December 31, 2022.

**PALMDALE WATER DISTRICT**

*Notes to Financial Statements*

*December 31, 2023 and 2022*

**NOTE 11 – PENSION PLAN (continued)**

**A. General Information about the Pension Plan**

**The Plan**

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

	<b>Miscellaneous Plans</b>	
	<b>Classic Tier 1</b>	<b>PEPRA Tier 2</b>
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required member contribution rates	6.910%	6.750%
Required employer contribution rates – FY 2023	10.880%	7.590%
Required employer contribution rates – FY 2022	11.031%	7.732%

**Plan Description, Benefits Provided and Employees Covered**

The Plan is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS). The District contributes to the miscellaneous risk pool within the Plan. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2022 Annual Actuarial Valuation Report. This report is a publicly available valuation report that can be obtained at CalPERS website under Forms and Publications.

The California Public Employees’ Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement benefits are applied, and places compensation limits on members. As a result of these changes since PEPRA’s adoption in January 2013, the District now has two unique CalPERS plans to which it makes contributions within the miscellaneous risk pool: the “classic” plan, which includes covered employees who have established membership in a CalPERS plan prior to January 2013, as well as the “PEPRA/new” plan, which includes covered employees who have established membership in a CalPERS plan after January 2013. Each plan or membership contains unique benefits levels, which are enumerated in the June 30, 2023 and 2022 Annual Actuarial Valuation Reports.

At June 30, 2023, the following members were covered by the benefit terms:

<b>Plan Members</b>	<b>Miscellaneous Plans</b>		<b>Total</b>
	<b>Classic Tier 1</b>	<b>PEPRA Tier 2</b>	
Active members	45	40	85
Transferred and terminated members	40	12	52
Retired members and beneficiaries	72	2	74
<b>Total plan members</b>	<b>157</b>	<b>54</b>	<b>211</b>

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 11 – PENSION PLAN (continued)

##### A. General Information about the Pension Plan (continued)

###### Plan Description, Benefits Provided and Employees Covered (continued)

At June 30, 2022, the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Active members	49	37	86
Transferred and terminated members	40	7	47
Retired members and beneficiaries	66	1	67
<b>Total plan members</b>	<b>155</b>	<b>45</b>	<b>200</b>

###### Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Contributions for the year ended December 31, 2023, (Measurement Date June 30, 2023) were as follows:

Contribution Type	Total
Contributions – employer	\$ 1,819,240
Contributions – members	618,256
<b>Total contributions</b>	<b>\$ 2,437,496</b>

Contributions for the year ended December 31, 2022, (Measurement Date June 30, 2022) were as follows:

Contribution Type	Total
Contributions – employer	\$ 1,700,412
Contributions – members	577,873
<b>Total contributions</b>	<b>\$ 2,278,285</b>

Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

For the years ended December 31, 2023 and 2022, the contributions recognized as part of pension expense for the Plan were \$1,819,240 and \$1,700,412.

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

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**NOTE 11 – PENSION PLAN (continued)**

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

***Proportionate Share of Net Pension Liability and Pension Expense***

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

Changes in the net pension liability for the year ended December 31, 2023, were as follows:

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
<b>CalPERS – Miscellaneous Plan:</b>			
Balance as of June 30, 2022 (Measurement Date)	\$ 57,665,907	\$ 43,935,805	\$ 13,730,102
Balance as of June 30, 2023 (Measurement Date)	\$ 62,045,785	\$ 46,930,404	\$ 15,115,381
<b>Change in Plan Net Pension Liability</b>	<b>\$ 4,379,878</b>	<b>\$ 2,994,599</b>	<b>\$ 1,385,279</b>

Changes in the net pension liability for the year ended December 31, 2022, were as follows:

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
<b>CalPERS – Miscellaneous Plan:</b>			
Balance as of June 30, 2021 (Measurement Date)	\$ 51,562,557	\$ 45,505,921	\$ 6,056,636
Balance as of June 30, 2022 (Measurement Date)	\$ 57,665,907	\$ 43,935,805	\$ 13,730,102
<b>Change in Plan Net Pension Liability</b>	<b>\$ 6,103,350</b>	<b>\$ (1,570,116)</b>	<b>\$ 7,673,466</b>

For the year ended December 31, 2023, and 2022 pension expenses were \$2,912,340 and \$1,279,553, respectively.

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation dates (June 30, 2022 and 2021). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2023 and 2022). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2023 and 2022 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY 2022-2023 and FY 2021-2022).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date.

**PALMDALE WATER DISTRICT**

*Notes to Financial Statements*

*December 31, 2023 and 2022*

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**NOTE 11 – PENSION PLAN (continued)**

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

***Proportionate Share of Net Pension Liability and Pension Expense (continued)***

- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The plan’s TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan’s NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

As of December 31, 2023 and 2022, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$15,115,381 and \$13,730,102, respectively.

The District’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of December 31, 2022 and 2021, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021 and 2020 rolled forward to December 31, 2022 and 2021 using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District’s proportionate share of the net pension liability for the June 30, 2023, measurement date was as follows:

	<b>Percentage Share of Risk Pool</b>		<b>Change Increase/ (Decrease)</b>
	<b>Fiscal Year Ending December 31, 2023</b>	<b>Fiscal Year Ending December 31, 2022</b>	
	<b>June 30, 2023</b>	<b>June 30, 2022</b>	
Measurement Date	0.30228%	0.29343%	0.00885%
Percentage of Risk Pool Net Pension Liability	0.12116%	0.11887%	0.00229%

The District’s proportionate share of the net pension liability for the June 30, 2022, measurement date was as follows:

	<b>Percentage Share of Risk Pool</b>		<b>Change Increase/ (Decrease)</b>
	<b>Fiscal Year Ending December 31, 2022</b>	<b>Fiscal Year Ending December 31, 2021</b>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>	
Measurement Date	0.29343%	0.31897%	-0.02554%
Percentage of Plan (PERF C) Net Pension Liability	0.11887%	0.11199%	0.00688%

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
*December 31, 2023 and 2022*

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**NOTE 11 – PENSION PLAN (continued)**

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

***Proportionate Share of Net Pension Liability and Pension Expense (continued)***

The total amount of \$964,493 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 December 31, 2024. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Account Description</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Pension contributions made after the measurement date	\$ 964,493	\$ -
Difference between actual and proportionate share of employer contributions	-	(395,205)
Adjustment due to differences in proportions	251,465	(37,494)
Differences between expected and actual experience	772,176	(119,783)
Differences between projected and actual earnings on pension plan investments	2,447,316	-
Changes in assumptions	912,584	-
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<b>\$ 5,348,034</b>	<b>\$ (552,482)</b>

The total amount of \$924,538 reported as deferred outflows of resources related to contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended December 31, 2023. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Account Description</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Pension contributions made after the measurement date	\$ 924,538	\$ -
Difference between actual and proportionate share of employer contributions	-	(527,042)
Adjustment due to differences in proportions	112,488	(59,549)
Differences between expected and actual experience	275,727	(184,673)
Differences between projected and actual earnings on pension plan investments	2,514,990	-
Changes in assumptions	1,406,936	-
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<b>\$ 5,234,679</b>	<b>\$ (771,264)</b>

**PALMDALE WATER DISTRICT**

*Notes to Financial Statements*

*December 31, 2023 and 2022*

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**NOTE 11 – PENSION PLAN (continued)**

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

***Proportionate Share of Net Pension Liability and Pension Expense (continued)***

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2023, will be amortized to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended December 31	Deferred Outflows/(Inflows) of Resources
2024	\$ 1,115,086
2025	760,162
2026	1,885,587
2027	70,224
<b>Total</b>	<b>\$ 3,831,059</b>

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2022, will be amortized to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended December 31	Deferred Outflows/(Inflows) of Resources
2023	\$ 885,634
2024	728,832
2025	386,161
2026	1,538,250
<b>Total</b>	<b>\$ 3,538,877</b>

***Actuarial Methods and Assumptions Used to Determine Total Pension Liability***

For the measurement period ending June 30, 2023 and 2022 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2022 and 2021, total pension liability. The December 31, 2023 and 2022, total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry age normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.30% thereafter

**PALMDALE WATER DISTRICT**  
*Notes to Financial Statements*  
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**NOTE 11 – PENSION PLAN (continued)**

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

***Discount Rate***

The discount rate used to measure the total pension liability for PERF B was 6.90%. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF B. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS' website.

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

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

<u>Asset Class<sup>1</sup></u>	<u>Assumed Asset Allocation</u>	<u>Real Return<sup>1,2</sup></u>
Global Equity - Cap-weighted	30.0%	4.54%
Global Equity - Non-Cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%
	<u>100.0%</u>	

<sup>1</sup> An expected inflation of 2.30% used for this period.

<sup>2</sup> Figures are based on the 2021 Asset Liability Management Study.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability/(asset) 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:

Changes in the discount rate for the year ended June 30, 2023, was as follows:

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1% 5.90%</u>	<u>Current Discount Rate 6.90%</u>	<u>Discount Rate + 1% 7.90%</u>
CalPERS – Miscellaneous Plan	\$ 23,506,809	\$ 15,115,381	\$ 8,208,514



**PALMDALE WATER DISTRICT**

*Notes to Financial Statements*

*December 31, 2023 and 2022*

**NOTE 11 – PENSION PLAN (continued)**

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

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate (continued)***

Changes in the discount rate for the year ended June 30, 2022, was as follows:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1%	Current Discount	Discount Rate + 1%
	5.90%	Rate 6.90%	7.90%
CalPERS – Miscellaneous Plan	\$ 21,591,005	\$ 13,730,102	\$ 7,262,530

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

**C. Payable to the Pension Plans**

At December 31, 2023 and 2022, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the year ended December 31, 2023 and 2022.

**NOTE 12 – NET POSITION – NET INVESTMENT IN CAPITAL ASSETS**

The District's net -position – net investment in capital assets for the years ended December 31, 2023 and 2022 were calculated as follows:

Description	Balance Dec. 31, 2023	Balance Dec. 31, 2022
Restricted – cash and cash equivalents		
– revenue bond proceeds for construction	\$ 14,381,169	\$ 7,723,962
Right-to-use asset, net – being amortized	-	366,740
Capital assets – not being depreciated	22,354,621	21,316,338
Capital assets, net – being depreciated	163,456,599	158,484,192
Deferred loss on debt defeasance, net	1,178,100	3,583,794
Right-to-use lease payable – current	(109,022)	(126,686)
Right-to-use asset financing – current	(463,073)	(447,281)
Loan payable – current	-	(1,342,628)
Revenue bonds payable – current	(671,666)	(1,273,017)
Right-to-use lease payable	(119,618)	(229,028)
Right-to-use asset financing	(1,489,646)	(1,952,719)
Loan payable	-	-
Revenue bonds payable, net	(77,496,425)	(66,320,148)
Total net investment in capital assets	\$ 121,021,039	\$ 119,783,519

**PALMDALE WATER DISTRICT**

*Notes to Financial Statements*

*December 31, 2023 and 2022*

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**NOTE 13 – NET POSITION – UNRESTRICTED (DEFICIT)**

As of December 31, 2023 and 2022, the District has an unrestricted net position deficit of (\$12,357,886) and (\$13,960,584). Due to the nature of the deficit from the implementation of GASB Statements No. 68 & 75 in the past fiscal years, the District will continue to make its actuarial determined contributions to CalPERS and annually review its outstanding net pension and net OPEB obligations funding requirements for future periods to reduce its deficit position.

**NOTE 14 – PRIOR PERIOD ADJUSTMENT**

Beginning net position as of January, 2022 was restated by \$11,804, for the District’s retroactive restatement for the adoption of *GASB No. 87 - Leases* as noted below as the lease started prior to January 1, 2022:

<u>Description</u>	<u>Balance</u>
<b>Net position as of January 1, 2022 – as previously reported</b>	\$ 99,917,008
GASB Statement No. 87 restatement for:	
Right-to-use asset, net	408,390
Right-to-use payable, net	<u>(396,586)</u>
Total adjustments	<u>11,804</u>
<b>Net position as of January 1, 2022 – as restated</b>	<u><u>\$ 99,928,812</u></u>

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 15 – RISK MANAGEMENT

The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing pool that provides insurance coverage and related services.

<b>A. Entity</b>	ACWA-JPIA
<b>B. Purpose</b>	To pool member contributions and realize the
<b>C. Participants</b>	As of September 30, 2023 – 401 member districts
<b>D. Governing board</b>	Nine representatives employed by members
<b>E. District payments for FY 2023:</b>	\$458,219
<b>F. Condensed financial information</b>	September 30, 2023
<b>Audit signed</b>	March 20, 2024

<b>Statement of financial position:</b>	<b>Sept. 30, 2023</b>
<b>Total assets</b>	<u>\$ 288,462,503</u>
<b>Deferred outflows</b>	<u>4,654,911</u>
<b>Total liabilities</b>	<u>167,203,667</u>
<b>Deferred inflows</b>	<u>5,200,835</u>
<b>Net position</b>	<u><u>\$ 120,712,912</u></u>
<b>Statement of revenues, expenses and changes in net position:</b>	
<b>Total revenues</b>	\$ 248,013,664
<b>Total expenses</b>	<u>(240,084,673)</u>
<b>Change in net position</b>	7,928,991
<b>Beginning – net position</b>	<u>112,783,921</u>
<b>Ending – net position</b>	<u><u>\$ 120,712,912</u></u>
<b>G. Member agencies share of year-end financial position</b>	Not Calculated

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. At December 31, 2023 and 2022, the District participated in the self-insured liability, property, and worker's compensation insurance programs provided by ACWA/JPIA through AON Risk Insurance Services West, Inc. as follows:

## **PALMDALE WATER DISTRICT**

### *Notes to Financial Statements*

*December 31, 2023 and 2022*

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#### **NOTE 15 – RISK MANAGEMENT (continued)**

##### **General and Auto Liability**

Each member limits of \$60 million per occurrence for auto and general liability coverage. The program protects the member agencies against third-party claims for bodily injury and property damage. The following coverages are also included:

- Personal Injury
- Errors and Omissions
- Products Hazard
- Inverse Condemnation
- Employment Practices
- Broadened Pollution
- Failure to Supply Water
- Care, Custody, & Control

##### **Property**

Each member Special Form Property Coverage including coverage for buildings, personal property, fixed equipment, mobile equipment, and licensed vehicles. Member agencies have various deductible selections. Boiler and Machinery Coverage is also included.

The following is an overview of the program:

- Real Property, Fixed Equipment, Personal Property at replacement cost
- Crime Coverage – up to \$100,000 Public Employee Dishonesty and Computer Fraud
- Terrorism Coverage – up to \$100 million per occurrence for property damage caused by an act declared to involve terrorism
- \$10 million Accounts Receivables for the amount of accounts uncollectible due to a covered loss
- \$100,000 Catastrophic coverage for vehicles

##### **Workers' Compensation**

Each member is covered for bodily injury by accident, \$2 million each accident, or bodily injury by disease, \$2 million each employee, including death, of employee arising out of and in the course of employment.

In addition, the District since August 2014 continued a separate policy with underwriters at Landmark American Insurance Company for commercial earthquake/business income interruption insurance. This insurance was purchased to safeguard the District in case of a major earthquake until disaster relief funds are made available by state and federal agencies. This policy has provisions as follows:

- The loss limit is \$9,284,980 per occurrence and in the annual aggregate.
- Deductible is 5% of values per unit of insurance subject to \$25,000 minimum per occurrence.
- Coverage for 2029 East Avenue Q location is \$2.891 million building limit and \$393,120 contents, including \$6 million business income.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending December 31, 2023, 2022, and 2021. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of December 31, 2023, 2022, and 2021.

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 16 – DEFERRED COMPENSATION SAVINGS PLAN

For the benefit of its employees, the District participates in an IRS Code Section 457 Deferred Compensation Program. The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the accompanying financial statements.

#### NOTE 17 – COMMITMENTS AND CONTINGENCIES

##### State Water Contract

Estimates of the District's share of the project fixed costs of the State Water Project (SWP) are provided annually by the State. The estimates are subject to future increases or decreases resulting from changes in planned facilities, refinements in cost estimates, and inflation. During the next five years, payments under the State Water Contract, exclusive of variable power costs, are currently estimated by the State to be as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2024	8,345,912
2025	9,499,653
2026	9,013,626
2027	9,045,633
2028	8,456,884

As of December 31, 2023, the District has expended approximately \$137,942,548 since the District started participating in the State Water Contract.

According to the State's latest estimates, the District's long-term obligations under the contract, for capital and minimum operations and maintenance costs, including interest to the year 2035, are as follows:

<u>Type of Long-Term Obligation</u>	<u>Amount</u>
State Water Project Contract:	
Transportation facilities	\$82,009,849
Delta water charges	23,650,704
Off-aqueduct power facilities	143,415
Revenue bond surcharge	<u>4,135,027</u>
Total	<u>\$109,938,995</u>

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2023 and 2022

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#### NOTE 17 – COMMITMENTS AND CONTINGENCIES (continued)

##### Bay/Delta Regulatory and Planning Activities

The State Water Resources Control Board (State Board) is the agency responsible for setting water quality standards and administering water rights throughout California. Decisions of the State Board can affect the availability of water to the District and other water users by means of public proceedings leading to regulations and decisions. In 1995, the State Board adopted a Water Quality Control Plan establishing water quality standards and flow improvements in the Bay/Delta watershed. In August 2000, the California Federal (CALFED) Bay/Delta Program Record of Decision (the Decision) was approved with mandates to improve water quality, enhance water supply reliability, augment ecosystem restoration, and assure long-term protection for Delta levees. During its first three years, CALFED has invested more than \$2.0 billion in hundreds of local and regional projects to meet these program goals. In May 2004, a Delta Improvement Package was proposed to facilitate implementation of the Decision. Funding is expected to be provided by state and federal appropriations and contributions from local users, including the District. CALFED's objective is to allocate project costs based on beneficiaries pay policy, that is new costs commensurate with benefits received. At this time, the exact allocation of costs between the federal, state, and local users has not been determined, and therefore, the District cannot estimate the extent of timing of its contributions at this time.

##### Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement, or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction.

The District has committed to approximately \$1,426,325 to complete the open construction contracts as of December 31, 2023. These include the following:

<u>Project Description</u>	<u>Cost of Project to Date</u>	<u>Estimated Costs to Complete</u>	<u>Total Expected Project Cost</u>
Littlerock Creek Groundwater Recharge Project	\$ 4,209,279	\$ 790,721	\$ 5,000,000
Various Water Main Replacements	2,736,400	326,737	3,063,137
Well 36 Construction	2,998,268	308,867	3,307,135
<b>Total</b>	<u>\$ 9,943,947</u>	<u>\$ 1,426,325</u>	<u>\$ 11,370,272</u>

##### Excluded Leases – Short-Term Leases and De Minimis Leases

The District does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12-months (or less), including any options to extend, regardless of their probability of being exercised.

Also, *de minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

**PALMDALE WATER DISTRICT**

*Notes to Financial Statements*

*December 31, 2023 and 2022*

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**NOTE 17 – COMMITMENTS AND CONTINGENCIES (continued)**

**Other Litigation**

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. Nevertheless, after consultation with legal counsel, the District believes that these actions, when finally concluded and determined are not likely to have a material adverse effect on the District's financial position, results of operations, or cash flows.

**NOTE 18 – CURRENT AND SUBSEQUENT EVENTS**

The District has evaluated subsequent events through June 30, 2024, the date on which the financial statements were available to be issued.

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***Required Supplementary Information***

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**PALMDALE WATER DISTRICT**

*Schedule of Proportionate Share of the Net Pension Liability  
For the Years Ended December 31, 2023 and 2022*

**Last Ten Fiscal Years\***

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

Measurement Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability		District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	
June 30, 2014	0.10201%	\$	6,347,533	\$	6,027,591	105.31%	79.93%
June 30, 2015	0.09802%		6,727,907		6,377,315	105.50%	79.62%
June 30, 2016	0.10037%		8,685,489		6,778,010	128.14%	75.59%
June 30, 2017	0.10166%		10,081,661		6,482,822	155.51%	74.68%
June 30, 2018	0.10180%		9,809,458		6,735,592	145.64%	76.68%
June 30, 2019	0.10434%		10,691,338		7,391,878	144.64%	75.92%
June 30, 2020	0.10637%		11,573,771		7,675,493	150.79%	75.79%
June 30, 2021	0.11199%		6,056,636		8,369,880	72.36%	88.25%
June 30, 2022	0.11887%		13,730,102		8,690,330	157.99%	76.19%
June 30, 2023	0.12116%		15,115,381		9,107,356	165.97%	75.64%

**Notes to Schedule:**

**Benefit Changes:**

There were no changes in benefits.

**Changes in Assumptions:**

**For fiscal years June 30, 2015 and June 30, 2016:**

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014, measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015, measurement date is without reduction of pension plan administrative expense.

**From fiscal year June 30, 2016 to June 30, 2017:**

There were no changes in assumptions.

**From fiscal year June 30, 2017 to June 30, 2018:**

The discount rate was reduced from 7.65% to 7.15%.

**From fiscal year June 30, 2018 to June 30, 2019:**

There were no significant changes in assumptions.

**From fiscal year June 30, 2019 to June 30, 2020:**

There were no significant changes in assumptions.

**From fiscal year June 30, 2020 to June 30, 2021:**

There were no significant changes in assumptions.

**From fiscal year June 30, 2021 to June 30, 2022:**

The discount rate was reduced from 7.15% to 6.90%, and the the inflation rate as reduced from 2.50% to 2.30%.

**From fiscal year June 30, 2022 to June 30, 2023:**

There were no significant changes in assumptions.

**PALMDALE WATER DISTRICT**  
*Schedule of Pension Contributions*  
*For the Years Ended December 31, 2023 and 2022*

**Last Ten Fiscal Years\***

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to the			Covered Payroll	Contributions as a Percentage of Covered Payroll
		Actuarially Determined Contribution	Contribution Deficiency (Excess)			
2014	\$ 805,370	\$ (805,370)	\$ -	\$ 6,027,591	13.36%	
2015	819,205	(819,205)	-	6,377,315	12.85%	
2016	945,678	(945,678)	-	6,778,010	13.95%	
2017	1,026,759	(1,026,759)	-	6,482,822	15.84%	
2018	1,178,448	(1,178,448)	-	6,735,592	17.50%	
2019	1,373,023	(1,373,023)	-	7,391,878	18.57%	
2020	1,559,864	(1,559,864)	-	7,675,493	20.32%	
2021	1,655,630	(1,655,630)	-	8,369,880	19.78%	
2022	1,789,211	(1,789,211)	-	8,690,330	20.59%	
2023	1,859,194	(1,859,194)	-	9,107,356	20.41%	

**Notes to Schedule:**

Measurement Date	Valuation Date	Actuarial Cost Method	Asset Valuation Method	Inflation	Investment Rate of Return
June 30, 2014	June 30, 2013	Entry Age	Fair Value	2.75%	7.50%
June 30, 2015	June 30, 2014	Entry Age	Fair Value	2.75%	7.65%
June 30, 2016	June 30, 2015	Entry Age	Fair Value	2.75%	7.65%
June 30, 2017	June 30, 2016	Entry Age	Fair Value	2.75%	7.65%
June 30, 2018	June 30, 2017	Entry Age	Fair Value	2.75%	7.15%
June 30, 2019	June 30, 2018	Entry Age	Fair Value	2.50%	7.15%
June 30, 2020	June 30, 2019	Entry Age	Fair Value	2.50%	7.15%
June 30, 2021	June 30, 2020	Entry Age	Fair Value	2.50%	7.15%
June 30, 2022	June 30, 2021	Entry Age	Fair Value	2.30%	6.90%
June 30, 2023	June 30, 2022	Entry Age	Fair Value	2.30%	6.90%

**Amortization Method** Level percentage of payroll, closed  
**Salary Increases** Depending on age, service, and type of employment  
**Investment Rate of Return** Net of pension plan investment expense, including inflation  
**Retirement Age** 50 years (2%@55), 52 years (2%@62)  
**Mortality** Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

## PALMDALE WATER DISTRICT

### Schedule of Changes in the District's Total OPEB Liability and Related Ratios For the Years Ended December 31, 2023 and 2022

Fiscal Year Ended	Last Ten Fiscal Years*					
	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Measurement Date	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
<b>Total OPEB liability:</b>						
Service cost	\$ 622,927	\$ 596,605	\$ 677,977	\$ 459,128	\$ 533,709	\$ 471,435
Interest	281,830	278,018	464,926	542,470	480,852	475,129
Changes of assumptions	(2,166,653)	117,793	231,952	2,835,458	(1,339,825)	695,190
Differences between expected and actual experience	539,319	-	(4,865,442)	-	-	-
Changes of benefit terms	-	-	142,064	-	-	-
Benefit payments	(434,424)	(468,905)	(379,410)	(322,930)	(307,191)	(283,520)
<b>Net change in total OPEB liability</b>	<b>(1,157,001)</b>	<b>523,511</b>	<b>(3,727,933)</b>	<b>3,514,126</b>	<b>(632,455)</b>	<b>1,358,234</b>
<b>Total OPEB liability - beginning</b>	<b>13,275,385</b>	<b>12,751,874</b>	<b>16,479,807</b>	<b>12,965,681</b>	<b>13,598,136</b>	<b>12,239,902</b>
<b>Total OPEB liability - ending</b>	<b>\$ 12,118,384</b>	<b>\$ 13,275,385</b>	<b>\$ 12,751,874</b>	<b>\$ 16,479,807</b>	<b>\$ 12,965,681</b>	<b>\$ 13,598,136</b>
<b>Covered-employee payroll</b>	<b>\$ 9,107,356</b>	<b>\$ 9,492,550</b>	<b>\$ 8,522,694</b>	<b>\$ 8,492,001</b>	<b>\$ 8,067,557</b>	<b>\$ 7,459,193</b>
<b>District's net OPEB liability as a percentage of covered-employee payroll</b>	<b>133.06%</b>	<b>139.85%</b>	<b>149.62%</b>	<b>194.06%</b>	<b>160.71%</b>	<b>182.30%</b>

#### Notes to Schedule:

##### Benefit Changes:

Measurement Date December 31, 2017 – There were no changes in benefits  
Measurement Date December 31, 2018 – There were no changes in benefits  
Measurement Date December 31, 2019 – There were no changes in benefits  
Measurement Date December 31, 2020 – There were no changes in benefits  
Measurement Date December 31, 2021 – There were no changes in benefits  
Measurement Date December 31, 2022 – There were no changes in benefits

##### Changes in Assumptions:

Measurement Date December 31, 2017 – Discount rate was updated to 3.44% from 3.78% as of December 31, 2016  
Measurement Date December 31, 2018 – Discount rate was updated to 4.09% from 3.44% as of December 31, 2017  
Measurement Date December 31, 2019 – Discount rate was updated to 2.74% from 4.09% as of December 31, 2018  
Measurement Date December 31, 2020 – Discount rate was updated to 2.12% from 2.74% as of December 31, 2019  
Measurement Date December 31, 2021 – Discount rate was updated to 2.06% from 2.12% as of December 31, 2020  
Measurement Date December 31, 2022 – Discount rate was updated to 3.72% from 2.06% as of December 31, 2021

\* Fiscal year 2018 was the first year of implementation; therefore, only six years are shown.

**PALMDALE WATER DISTRICT**

*Schedule of OPEB Contributions*

*For the Years Ended December 31, 2023 and 2022*

**Last Ten Fiscal Years\***

**The Plan is not administered through a qualified trust.  
Therefore, there is no Actuarially Determined Contribution (ADC)**

<b>Fiscal Year Ended</b>	<b>Dec. 31, 2023</b>	<b>Dec. 31, 2022</b>	<b>Dec. 31, 2021</b>	<b>Dec. 31, 2020</b>	<b>Dec. 31, 2019</b>	<b>Dec. 31, 2018</b>
Contributions made	\$ 359,711	\$ 345,386	\$ 381,892	\$ 305,410	\$ 245,893	\$ 240,695
Implied subsidy	105,080	89,038	87,013	74,000	77,037	66,496
Total contributions	<u>\$ 464,791</u>	<u>\$ 434,424</u>	<u>\$ 468,905</u>	<u>\$ 379,410</u>	<u>\$ 322,930</u>	<u>\$ 307,191</u>

**Notes to Schedule:**

<b>Valuation Date</b>	<b>Dec. 31, 2022</b>	<b>Dec. 31, 2020</b>	<b>Dec. 31, 2019</b>	<b>Dec. 31, 2019</b>	<b>Dec. 31, 2018</b>	<b>Dec. 31, 2017</b>
<b>Methods and Assumptions Used to Determine Contribution Rates:</b>						
Discount rate	3.72%	2.12%	2.12%	2.74%	4.09%	3.44%
Inflation	2.50%	2.50%	2.50%	2.75%	2.75%	2.75%
Payroll increases	2.75%	2.75%	2.75%	3.00%	3.00%	3.00%
Mortality	1	1	1	1	1	1
Disability	1	1	1	1	1	1
Retirement	1	1	1	1	1	1
Termination	1	1	1	1	1	1
Healthcare trend rates	2	2	2	2	2	2

(1) CalPERS 2000-2019 Experience Study

(2) Pre-65 - 7.50% trending down to 4.00% in 2076

Post-65 - 6.50% trending down to 4.00% in 2076

\* Fiscal year 2018 was the first year of implementation; therefore, only six years are shown.

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***Supplementary Information***

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**PALMDALE WATER DISTRICT**  
*Schedules of Debt Service Net Revenues Coverage*  
*For the Year Ended December 31, 2023 and 2022*

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	<u>2023</u>	<u>2022</u>
<b>Total revenues:</b>		
Operating revenues	\$ 34,573,330	\$ 31,320,439
Non-operating revenues	11,264,102	11,527,508
Capital contributions – capital improvement fees and grants	<u>2,098,393</u>	<u>5,562,268</u>
<b>Total revenues</b>	<u>47,935,825</u>	<u>48,410,215</u>
<b>Total expenses:</b>		
Operating expenses before depreciation expense	<u>31,452,823</u>	<u>26,501,941</u>
Non-operating expenses	7,554,097	6,452,924
Less debt service items:		
Interest expense – long-term debt	<u>(2,733,668)</u>	<u>(2,437,192)</u>
<b>Total non-operating expenses adjusted for debt service items</b>	<u>4,820,429</u>	<u>4,015,732</u>
	<u>36,273,252</u>	<u>30,517,673</u>
<b>Net revenues available for debt service</b>	<u>\$ 11,662,573</u>	<u>\$ 17,892,542</u>
<b>Debt service for the fiscal year</b>	<u>\$ 3,806,091</u>	<u>\$ 5,678,432</u>
<b>Debt service net revenues coverage ratio</b>	<u>306%</u>	<u>315%</u>

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***Other Independent Auditors' Reports***

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

Board of Directors  
Palmdale Water District  
Palmdale, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palmdale Water District (District) as of and for the year ended December 31, 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 June 30, 2024.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Nigro & Nigro, PC". The signature is written in a cursive style.

Murrieta, California  
June 30, 2024