

PALMDALE RECYCLED WATER AUTHORITY (PRWA)

REGULAR MEETING AGENDA NO. 11 OF THE PALMDALE RECYCLED WATER AUTHORITY (PRWA)

to be held at

**PALMDALE WATER DISTRICT
2029 EAST AVENUE Q
PALMDALE, CALIFORNIA
MAY 21, 2014
7:00 P.M.**

www.cityofpalmdale.org
www.palmdalewater.org

WELCOME

NOTE: Materials related to an item on this agenda submitted to the Palmdale Recycled Water Authority Board of Directors, or after distribution of the agenda packet, are available for public inspection at the City of Palmdale City Hall, located at 38300 Sierra Highway, Suite A, Palmdale, California, and at the Palmdale Water District, located at 2029 East Avenue Q, Palmdale, California, during normal business hours and will also be available at the meeting. Those items provided by others at the meeting will be available at City Hall during normal business hours.

A **three-minute time limit** will be imposed on all speakers other than staff members.

In accordance with the Americans with Disabilities Act of 1990, if you require a disability-related modification or accommodation to attend or participate in this meeting, including auxiliary aids or services, please call the Palmdale Water District at least 48 hours prior to the meeting.

Your courtesy is requested to help our meeting run smoothly. If you'll be kind enough to follow these simple rules, we can make the best possible use of your time and ours:

- Please refrain from public displays or outbursts such as unsolicited applause, comments, cheering, foul language, or obscenities.
- Any disruptive activities that substantially interfere with the ability of the Board of Directors to carry out its meeting will not be permitted and offenders will be requested to leave the meeting.
- Please turn off cell phones and pagers.

1. **CALL TO ORDER.**
2. **ADMINISTERING OF OATH OF OFFICE TO APPOINTED DIRECTORS.**
(Staff Reference: Assistant Authority Counsel Quilizapa)
3. **ROLL CALL:** Directors James C. Ledford, Jr., Fred Thompson, Kathy Mac Laren, Robert Alvarado, and Helen Velador
4. **PLEDGE OF ALLEGIANCE.**
5. **WAIVER OF FULL READING OF RESOLUTION(S).**

Motion: Move to waive full reading of the Resolution(s) to be considered and voted on at this meeting. (**Vote by Roll Call** – requires a majority to waive)

6. **CONSENT CALENDAR – PUBLIC COMMENTS ONLY:** If you wish to comment on any item(s) listed on the Consent Calendar on this agenda, please come forward to the podium and state the item number(s) and your comments. **PLEASE NOTE: A three-minute time limit** will be imposed on each speaker other than staff members.

7. **CONSENT CALENDAR:**

NOTICE: All matters listed under the Consent Calendar will be enacted by one motion unless an item(s) is pulled by the Board, in which case the item(s) will be removed from the Consent Calendar and will be considered separately following this portion of the agenda.

- 7.1) Approve the Authority's revised 2014 budget and Resolution PRWA 2014-002 therefore. (Staff Reference: Assistant Executive Director Mischel)
- 7.2) Authorize the Board Chair to execute an attorney conflict of interest waiver with William Wynder, Esquire and Aleshire & Wynder LLP. (Staff Reference: Executive Director LaMoreaux)
- 7.3) Approve the minutes from the previous meeting held on February 19, 2013. (Staff Reference: Secretary Deans/Acting Secretary Henry)
- 7.4) Approve receipt and filing of the Treasurer's Report through the months ended April 30, 2014. (Staff Reference: Treasurer/Auditor Johnston)
- 7.5) Approve 2013 Audit Report. (Staff Reference: Treasurer/Auditor Johnston)

Staff Recommendation: Move to approve the recommendations and findings on all items listed under this Consent Calendar.
(**Vote by Roll Call** – requires a majority to approve)

8. **ACTION CALENDAR – PUBLIC COMMENTS ONLY:** If you wish to comment on any item(s) listed on the Action Calendar on this agenda, please come forward to the podium and state the item number(s) and your comments. **PLEASE NOTE: A three-minute time limit** will be imposed on each speaker other than staff members.
9. **ACTION CALENDAR:**
 - 9.1) Consideration and possible action on training for Authority Directors.
(Staff Reference: Utilities Services Manager Phair)

Staff Recommendation: Move to approve training as presented.
(Vote by Roll Call – requires a majority to approve)
10. **PUBLIC COMMENTS:** This portion of the agenda allows an individual the opportunity to address the Board of Directors on any subject regarding Palmdale Recycled Water Authority business. Under state legislation, no action can be taken on items not specifically referenced on the Agenda. **PLEASE NOTE: A three-minute time limit** will be imposed on each speaker other than staff members.
11. **SPECIAL REPORT:**
 - 11.1.Presentation by Carollo Engineers regarding draft Palmdale Recycled Water Authority Recycled Water Master Plan. (Staff Reference: Executive Director LaMoreaux)
12. **INFORMATIONAL REPORTS OF THE BOARD OF DIRECTORS, EXECUTIVE DIRECTOR, AND ASSISTANT EXECUTIVE DIRECTOR.**
13. **ANNOUNCEMENT OF NEXT REGULAR MEETING DATE.**
14. **ADJOURNMENT.**

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# PALMDALE RECYCLED WATER AUTHORITY BOARD MEMORANDUM

**DATE:** May 14, 2014 **May 21, 2014**  
**TO:** BOARD OF DIRECTORS **Board Meeting**  
**FROM:** Mr. Michael J. Mischel, Assistant Executive Director, PRWA  
**VIA:** Mr. Dennis LaMoreaux, Executive Director, PRWA  
**RE:** **AGENDA ITEM NO. 7.1 – CONSIDERATION AND POSSIBLE ACTION ON  
RESOLUTION NO. PRWA 2014-002 AUTHORIZING THE ADOPTION OF  
THE PALMDALE RECYCLED WATER AUTHORITY 2014 BUDGET**

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**Recommendation:**

Palmdale Recycled Water Authority (PRWA) staff recommends approval of Resolution No. PRWA 2014-002 authorizing the adoption of the Palmdale Recycled Water Authority 2014 Budget.

**Background:**

A part of the Palmdale Recycled Water Authority's duties is to create an annual operating budget. The proposed 2014 Budget highlights revenue from water sales, member contributions, and anticipated projects. The budget also outlines expenditures such as consultant services, training, and recycled water purchases.

Due to the possibility of anticipated grant opportunities, staff recommends setting aside the unappropriated funds for design of the second phase of the recycled water system. The remaining balance of funds will also offset any unexpected repairs on either the pump station or the mainline.

**Financial Impact:**

As set forth in the budget document, the fiscal year 2014 budgeted unappropriated reserves are \$216,556. The Authority's policy is to have unappropriated reserves for emergencies.

**Supporting Documents:**

- Proposed budget
- Resolution No. PRWA 2014-002



# Palmdale Recycled Water Authority

## Proposed Budget

Palmdale Recycled Water Authority

| Date Modified             | 5/14/2014     | <b>2013<br/>Budget</b> | <b>2013<br/>Actual</b> | <b>2014<br/>Proposed</b> | <b>2015<br/>Projected</b> |
|---------------------------|---------------|------------------------|------------------------|--------------------------|---------------------------|
| <b>Org</b>                | <b>Object</b> | <b>Revenues:</b>       |                        |                          |                           |
|                           |               | Carryover              |                        |                          |                           |
|                           |               |                        |                        | \$ 129,324               | \$ 215,056                |
| 7151595                   | 499400        | \$ 100,000             | \$ 100,000             | \$ 100,000               | \$ -                      |
| 7151595                   | 499401        | \$ 100,000             | \$ 100,000             | \$ 100,000               | \$ -                      |
| 7151595                   | 451110        | \$ -                   | \$ 20                  | \$ -                     | \$ -                      |
| 7151595                   | 499402        | \$ 17,000              | \$ -                   | \$ 15,500                | \$ -                      |
| 7151595                   | 499403        | \$ 3,000               | \$ -                   | \$ -                     | \$ -                      |
| 7151595                   | 499404        | \$ 60,000              | \$ -                   | \$ -                     | \$ -                      |
| <b>Total Revenue</b>      |               | <b>\$ 280,000</b>      | <b>\$ 200,020</b>      | <b>\$ 344,824</b>        | <b>\$ 215,056</b>         |
| <b>Expenditures:</b>      |               |                        |                        |                          |                           |
| 7151595                   | 721410        | \$ -                   | \$ -                   | \$ 8,500                 | \$ -                      |
| 7151595                   | 711000        | \$ 5,000               | \$ -                   | \$ 3,000                 | \$ -                      |
| 7151595                   | 735100        | \$ 1,000               | \$ -                   | \$ 500                   | \$ -                      |
| 7151595                   | 710000        | \$ 10,000              | \$ -                   | \$ 5,000                 | \$ -                      |
| 7151595                   | 725200        | \$ 6,000               | \$ 2,552               | \$ 5,000                 | \$ -                      |
| 7151595                   | 722345        | \$ 1,000               | \$ 1,496               | \$ 7,500                 | \$ -                      |
| 7151595                   | 721960        | \$ 140,000             | \$ 51,399              | \$ 75,268                | \$ -                      |
| 7151595                   | 721960        | \$ -                   | \$ -                   | \$ -                     | \$ -                      |
| 7151595                   | 729100        | \$ 15,000              | \$ 15,248              | \$ 25,000                | \$ -                      |
| 7151595                   | 731700        | \$ 8,000               | \$ -                   | \$ -                     | \$ -                      |
| <b>Total Expenditures</b> |               | <b>\$ 186,000</b>      | <b>\$ 70,696</b>       | <b>\$ 129,768</b>        | <b>\$ -</b>               |
| <b>Net Income (Loss)</b>  |               | <b>\$ 94,000</b>       | <b>\$ 129,324</b>      | <b>\$ 215,056</b>        | <b>\$ 215,056</b>         |

**RESOLUTION NO. PRWA 2014-002**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE PALMDALE RECYCLED WATER AUTHORITY AUTHORIZING THE ADOPTION OF THE PALMDALE RECYCLED WATER AUTHORITY 2014 BUDGET**

WHEREAS, The Palmdale Recycled Water Authority has identified the need for a 2014 Budget; and

WHEREAS, The Palmdale Recycled Water Authority Board reviewed the proposed Budget for fiscal year 2014 on March 19, 2014, at which time said proposed Budget was heard and considered; and

WHEREAS, the Palmdale Recycled Water Authority considered the proposed budget as submitted and made all changes and amendments thereto which said Authority desired to make therein; and

WHEREAS, individual project costs have been proportionately budgeted to the respective project areas based upon the benefit attributable to the targeted project area including improving inadequate public improvements and public facilities, improving and correcting depreciated values; and

WHEREAS, the Palmdale Recycled Water Authority has approved a fund reserve for emergency situations such as natural disasters; and

WHEREAS, the Palmdale Recycled Water Authority has heretofore, or hereafter will, raise sufficient revenues to finance and balance said budget.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Palmdale Recycled Water Authority:

SECTION 1: The original of the Budget of the Palmdale Recycled Water Authority shall be placed on file in the office of the Authority Clerk and shall be open to public inspection.

SECTION 2: The Palmdale Recycled Water Authority hereby approves all of the adjustments to the fiscal year 2014 revenues and expenditures as presented in the fiscal year 2014 budget document.

SECTION 3: The Budget of the Palmdale Recycled Water Authority is hereby approved and adopted. In adopting said budget, the Authority Board approved the specified amounts for each of the various programs and accounts set forth.

SECTION 4: The Authority Treasurer is hereby authorized and instructed to take all steps necessary to implement this Resolution in accordance with the provisions of the budget document.

SECTION 5: Without prior approval of the Authority Board, the Executive Director shall have authority to transfer up to \$25,000 from program to program, except for shifts in appropriations relating to personnel. Any transfer of more than such amount shall be approved by the Authority Board.

SECTION 6: The Authority Treasurer, with the approval of the Executive Director, shall approve the Encumbrances and Continuing Appropriations from the Authority's budget for fiscal year 2014.

SECTION 7: The Budget for fiscal year 2014, as submitted, amended, modified, revised, corrected, adopted, and filed by the Authority shall be the fiscal year 2014 Budget for the Palmdale Recycled Water Authority. The Budget is subject to the requirements of Article XIII B of the California Constitution.

SECTION 8: The Clerk of the Authority shall certify to the adoption of this Resolution and enter it into the official records of the Authority.

PASSED, APPROVED and ADOPTED this 21<sup>st</sup> day of May, 2014, by the following vote:

AYES: \_\_\_\_\_

NOES: \_\_\_\_\_

ABSENT: \_\_\_\_\_ ABSTAIN: \_\_\_\_\_

\_\_\_\_\_  
James C. Ledford, Jr., Chair

ATTEST:

\_\_\_\_\_  
Danielle Henry,  
Acting Authority Secretary

Approved as to form:

\_\_\_\_\_  
William Wynder,  
Authority Counsel

**PALMDALE RECYCLED  
WATER AUTHORITY  
BOARD MEMORANDUM**

**DATE:** May 13, 2014 **May 21, 2014**  
**TO:** BOARD OF DIRECTORS **Board Meeting**  
**FROM:** Mr. Dennis D. LaMoreaux, Executive Director  
**RE:** ***AGENDA ITEM NO. 7.2 – AUTHORIZE THE BOARD CHAIR TO EXECUTE AN ATTORNEY CONFLICT OF INTEREST WAIVER WITH WILLIAM WYNDER, ESQUIRE AND ALESHIRE & WYNDER LLP***

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**Recommendation:**

Staff recommends the Board approve and authorize the execution of the Attorney Conflict of Interest Waiver with William Wynder, Esquire and Aleshire & Wynder for the Palmdale Recycled Water Authority.

**Background:**

The Board of Directors of the Palmdale Recycled Water Authority made the determination to rotate General Counsel for the Authority between the City of Palmdale's City Attorney's Office and the Palmdale Water District's General Counsel on an annual basis beginning in January of each year. The City Attorney's Office acted as General Counsel for the Authority for the 2013 year, and the District's General Counsel will serve as General Counsel for the Authority for the 2014 year.

An Attorney Conflict of Interest Waiver obtaining the informed written consent of both the Palmdale Water District and the Palmdale Recycled Water Authority must be obtained for Aleshire & Wynder, the District's new General Counsel, to act as General Counsel for the Authority for the 2014 year. The Board of Directors of the Palmdale Water District approved the Attorney Conflict of Interest Waiver at their March 26, 2014 Regular Board Meeting.

**Budget:**

This item will not affect the budget.

**Supporting Documents:**

- Aleshire & Wynder LLP Attorney Conflict of Interest Waiver



**ALESHIRE &  
WYNDER LLP**  
ATTORNEYS AT LAW

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March 19, 2014

Hon. James C. Ledford, Jr.  
Chair, Palmdale Recycled Water  
Authority  
38300 Sierra Highway  
Palmdale, CA 93550-4798

Hon. Kathy Mac Laren  
President, Board of Directors  
Palmdale Water District  
2029 East Avenue Q  
Palmdale, CA 93550

Re: *Disclosure of Potential Conflict of Interests and Waiver re: Representation of  
Palmdale Recycled Water Authority*

Dear Chair Ledford and President Mac Laren:

We are most pleased to have been appointed as the Palmdale Water District's General Counsel. As such, our firm will also be serving as General Counsel to the Palmdale Recycled Water Authority ("Authority") pursuant to the pre-existing structure of the Authority. As you know, the Authority is a joint powers authority, whose members are the City of Palmdale ("City") and the Palmdale Water District ("District"). We understand that the Authority's governing board has determined that it is in the best interests of the Authority to utilize the City's City Attorney's Office and the District's General Counsel to serve as General Counsel to the Authority, on a rotating basis. Under that structure, the City Attorney and District's General Counsel would rotate annually, with the transition to occur in January of each year.

Currently, the District's General Counsel is serving as Counsel to the Authority. Pursuant to the District's transition from its former firm to our firm as of March 3, 2014, we present this potential conflict disclosure and waiver request for our firm to also serve as Counsel to the Authority. This disclosure and waiver request is similar to the letter presented by the District's former counsel, Lagerlof, Senecal, Gosney & Kruse LLP, on November 6, 2013, which the parties have approved.

The California Rules of Professional Conduct preclude an attorney from representing a client in one matter and at the same time in a separate matter accepting as a client an entity whose interests potentially conflict to the client in the first matter without the informed written consent of each client (Rule 3-310(C)(1)).

This rule means that the partners and associate attorneys at my firm (including me), as attorneys for the District, are precluded from providing services for a new client (The Authority)

if at the same time, we represent an existing client (The District) in a matter where the Authority's interests could potentially be adverse to the District, without first obtaining the informed written consent of each client.

The specific rules that requires such consent are Rules 3-310 (A), (B) and (C) of the Rules of Professional Conduct, which provides as follows:

Rule 3-310. Avoiding the Representation of Adverse Interests

(A) For purposes of this rule:

(1) "Disclosure" means informing the client or former client of the relevant circumstances and of the actual and reasonably foreseeable adverse consequences to the client or former client;

(2) "Informed written consent" means the client's or former client's written agreement to the representation following written disclosure;

(3) "Written" means any writing as defined in Evidence Code section 250.

(B) A member shall not accept or continue representation of a client without providing written disclosure to the client where:

(1) The member has a legal, business, financial, professional, or personal relationship with a party or witness in the same matter; or

(2) The member knows or reasonably should know that:

(a) The member previously had a legal, business, financial, professional, or personal relationship with a party or witness in the same matter, and

(b) the previous relationship would substantially affect the member's representation; or

(3) The member has or had a legal, business, financial, professional, or personal relationship with another person or entity the member knows or reasonably should know would be affected substantially by resolution of the matter; or

(4) The member has or had a legal, business, financial, or professional interest in the subject matter of the representation.

(C): A member shall not, without the informed written consent of each client:

(1) Accept representation of more than one client in a matter in which the interests of the clients potentially conflict; or

- (2) Accept or continue representation of more than one client in a matter in which the interests of the clients actually conflict; or
- (3) Represent a client in a matter and at the same time in a separate matter accept as a client a person or entity whose interest in the first matter is adverse to the client in the first matter.

The purpose of the Authority is described in Section 2.3 of the *Joint Exercise of Powers Agreement Creating the Palmdale Recycled Water Authority* as follows:

2.3 Purpose. The purpose of the Agreement is to establish an independent public agency in order to study, promote, develop, distribute, construct, install, finance, use and manage recycled water resources created by the Sanitation Districts 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.

We understand that the interests of the District are not currently adverse to the interests of the Authority. However, as the Authority begins operations, the interests of the District may differ from the Authority. For example, there could be disputes between the District and the Authority regarding the amount of Authority resources allocated to particular activities, or disputes regarding each member's responsibilities in the event of a claim brought against the District and Authority.

In the event there is a dispute over the activities of the Authority, the interests of the District may become adverse to the Authority. In the event such a dispute arises, where the interests of the District are adverse to the Authority, my firm and I would be obliged to disqualify ourselves from representing some or all of the entities in that dispute. The Authority acknowledges and consents, unless ethically impossible under the circumstances, to my firm continuing to represent the District in the event of a conflict between the District and the Authority.

In light of this potential conflict, it is appropriate for us to seek the Authority's informed written consent of our representation of the Authority on matters to which the Authority is potentially, but not currently, adverse to the District.

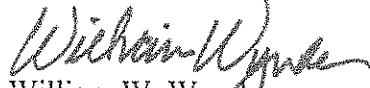
Accordingly, we request that the Authority approve this disclosure and consent acknowledging that (i) the Authority has been advised of Rule 3-310(c) and of the potential conflicts associated with our representation of the Authority while at the same time representing the District as its General Counsel; and (ii) the Authority consents to my firm concurrently representing the Authority and the District.

The Authority is encouraged to seek independent counsel at any time if the Authority seeks legal guidance in the approval of this consent.

We look forward to working with the Authority.

Very truly yours,

ALESHIRE & WYNDER, LLP



William W. Wynder

WW:pjq

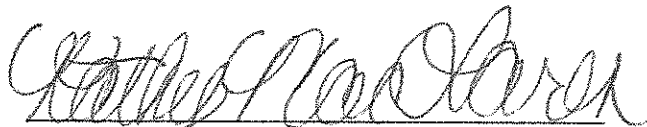
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William W. Wynder of Aleshire & Wynder, LLP, General Counsel for Palmdale Water District, has disclosed and explained that there exists potential conflicting interests in his firm's concurrent representation of the Authority and Palmdale Water District and has informed the Authority of the possible consequences of these conflicts. The Authority understands that it has the right to seek independent counsel before signing this consent or at any future time. The Authority desires to have the benefit of the representation by William Wynder and Aleshire & Wynder, LLP in connection with matters involving the Authority and consents and gives approval to such representation as well as consents and gives approval to William W. Wynder and Aleshire & Wynder, LLP to continue the representation of the Palmdale Water District.

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James C. Ledford, Jr., Chair  
Palmdale Recycled Water Authority  
March \_\_, 2014

Acknowledged:



Kathy MacLaren  
President, Board of Directors  
Palmdale Water District  
March 26, 2014



**PALMDALE RECYCLED  
WATER AUTHORITY  
BOARD MEMORANDUM**

**DATE:** May 14, 2014 **May 21, 2014**  
**TO:** BOARD OF DIRECTORS **Board Meeting**  
**FROM:** Karen Johnston, Treasurer-Auditor, PRWA  
**VIA:** Mr. Dennis LaMoreaux, Executive Director, PRWA  
**RE:** **AGENDA ITEM NO. 7.4 – TREASURER’S REPORT FOR APRIL 30, 2014**

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**Recommendation:**

Palmdale Recycled Water Authority (PRWA) staff recommends the Board of Directors to receive and file the Treasurer’s Report for the year ended April 30, 2014.

**Background:**

To comply with provisions required by Section 4.13 of the Joint Powers of Authority Agreement and responsibilities of Treasurer, a Financial Report is prepared and submitted to the Board of Directors who certifies the availability of funds for the reports presented. These reports are hereby submitted to the Board of Directors for ratification.

**Financial Impact:**

The PRWA has \$92,499.30 in the bank as of April 30, 2014. The PRWA earned \$50.48 in interest and paid invoices totaling \$88,735.30 in expenditures through April, 2014. The invoices paid during 2014 consisted of \$50,343.03 in 2013 accounts payable balances and \$38,392.27 in 2014 expenditures.

**Supporting Documents:**

- April 2014 Treasurer’s Report.

**Palmdale Recycled Water Authority  
Treasurer's Report  
Month Ended April 30, 2014**

**Cash/Funds Available and held at Bank of America:**

|                            |                         |
|----------------------------|-------------------------|
| Audited Balance, beginning | \$181,184.12            |
| Deposits:                  | Interest Earnings 50.48 |
| Expenditures               | 88,735.30               |
| Balance, ending            | <u>\$92,499.30</u>      |

**Expenditures:**

|                                                                |                  |
|----------------------------------------------------------------|------------------|
| Wateruse Association, 2014 Membership Dues                     | 2,552.37         |
| Rackspace, Hosting Service (Monitoring & Firewall to Apr 2014) | 2,412.40         |
| Carollo Engineers 2014 (Oct-Feb)                               | 64,869.50        |
| County Sanitation District (Recycled Water 2013)               | 12,901.03        |
| Vavrinek, Trine, Day & Co., LLP (2013 Audit)                   | 6,000.00         |
| Total Expenditures                                             | <u>88,735.30</u> |

**Accounts Payable:**

|                        |             |
|------------------------|-------------|
|                        | 0.00        |
| Total Accounts Payable | <u>0.00</u> |

**PALMDALE RECYCLED  
WATER AUTHORITY  
BOARD MEMORANDUM**

**DATE:** May 21, 2014 **May 21, 2014**  
**TO:** BOARD OF DIRECTORS **Board Meeting**  
**FROM:** Karen Johnston, Treasurer-Auditor, PRWA  
**VIA:** Mr. Dennis LaMoreaux, Executive Director, PRWA  
**RE:** **AGENDA ITEM NO. 7.5 – ANNUAL AUDITED FINANCIAL REPORT FOR 2013**

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**Recommendation:**

Palmdale Recycled Water Authority (PRWA) staff recommends the Board of Directors to receive and file the Annual Audited Financial Report for 2013.

**Background:**

To comply with provisions required by Section 4.13 of the Joint Powers of Authority Agreement and Government Code Section 6505, the Treasurer shall contract with a certified public accountant to make an annual audit of the records of the PRWA and the minimum requirements of the audit shall be those prescribed by the Controller for special districts under Section 26909 and conform to generally accepted auditing standards. The Authority has contracted with Vavrinek, Trine, Day & Co., LLP to perform the annual audit of the Authority's financial transactions for the 2013 calendar year. Vavrinek, Trine, Day & Co., LLP have completed their review of the Authority's financial transactions and have issued the attached annual report.

**Financial Impact:**

None.

**Supporting Documents:**

- 2013 Annual Audited Financial Report

**PALMDALE RECYCLED WATER AUTHORITY**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**PALMDALE RECYCLED WATER AUTHORITY**

**ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2013**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Palmdale Recycled Water Authority  
Palmdale, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Palmdale Recycled Water Authority (Authority) as of and for the year ended December 31, 2013, and the related notes to the financial statements, as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Vavrinick, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
May 13, 2014



**PALMDALE RECYCLED WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

The following is a brief discussion of the Palmdale Recycled Water Authority (Authority) activities and financial performance for the year ended December 31, 2013. Please read in conjunction with the Authority's basic financial statements and accompanying notes which follow this section.

**FINANCIAL HIGHLIGHTS**

- 2013 is the Authority's first full year of operations as it was created under a joint powers agreement between the City of Palmdale and the Palmdale Water District on September 26, 2012.
- The Authority's revenues were \$200,000 in 2013.
- The Authority's Expenses were \$69,194 in 2013.
- The Authority's total assets at December 31, 2013 were \$181,184.
- The Authority's total liabilities at December 31, 2013 were \$50,343.
- The Authority's net position at December 31, 2013 was \$130,841.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting.

Under the economic resources measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the statement of Net Position. The Statement of Revenues, Expenses and Changes in net Position presents increases (revenues) and decreases (expenses) in total net position. Under 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.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The Authority's financial statements, prepared in accordance with generally accepted accounting principles (GAAP), offer key, high-level financial information about Authority's activities during the reporting period. The financial statements of the Authority consist of three interrelated statements designed to provide the reader with relevant information on the Authority's financial condition and operating results. These statements offer short-term and long-term financial information about the Authority's activities utilizing the full accrual basis of accounting.

The *Statement of Net Position* includes all of the Authority's assets, less liabilities, and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's creditors (liabilities), with the difference being reported as net position. It also provides the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Position*. This statement measures the Authority's operations over the past year and



**PALMDALE RECYCLED WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

can be used to determine whether the Authority has successfully recovered all its projected costs through its member contributions.

The final required financial statement is the *Statement of Cash Flows* which presents information about the Authority's cash receipts and cash payments during the reporting period classified as cash receipts, cash payments, and net changes in cash resulting from operations, and investing, non-capital financing and capital and related financing activities.

**FINANCIAL ANALYSIS OF THE AUTHORITY**

Our analysis of the Authority begins on page 3 of the Management's Discussion and Analysis. One of the most important questions asked about the Authority's finances is: "Is the Authority, as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority and changes in them. You can think of the Authority's net position the difference between assets and liabilities as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in rates and charges and new or changed government legislation or accounting standards.

**STATEMENT OF NET POSITION**

The Net Position is the difference between assets, less liabilities, and may serve over time as a useful indicator of a government's financial position. The following is a summary of the Authority's Statement of Net Position.

**Condensed Statement of Net Position**

|                             |                   |
|-----------------------------|-------------------|
|                             | 2013              |
| Cash and Cash Equivalents   | \$ 181,184        |
| Total Assets                | <u>181,184</u>    |
| Current Liabilities         | 50,343            |
| Total Liabilities           | <u>50,343</u>     |
| Total Unrestricted Position | <u>\$ 130,841</u> |

As can be seen from the financial statement above, 2013 is the first full operating year for the Authority and the Net Position increased by \$130,841. This increase is the result of the following:

- Current Assets increased by \$181,184 as the result of receiving \$200,000 of member contributions during the year to defray the operating costs of the Authority.
- Current Liabilities for operating cost totaled \$50,343 at the end of the year.



**PALMDALE RECYCLED WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**STATEMENT OF REVENUES, EXPENSES, AND NET POSITION**

While the Statement of Net Position shows the net position, the Statement of Revenues, Expenses, and Changes in Net Position provides information as to the nature and source of these changes. The Authority reported for its first year of operations an increase in net position of \$130,841 for the year ended December 31, 2013. The following is a summary of the change in the Authority's net position.

**Condensed Statements of Revenues,  
Expenses, and Changes in Net Position**

|                                | 2013       |
|--------------------------------|------------|
| Revenues:                      |            |
| Membership Contributions       | \$ 200,000 |
| Total Revenues                 | 200,000    |
| Expenses:                      |            |
| Operating Expenses             | 69,194     |
| Total Expenses                 | 69,194     |
| Non-operating Revenue          |            |
| Interest Revenue               | 35         |
| Total Non-operating revenue    | 35         |
| Change in Net Position         | 130,841    |
| Net Position - January 1, 2013 | -          |
| Net Position - June 30, 2013   | \$ 130,841 |

2013 is the first year of operations for the Authority and the source of changes in net position is directly related to member contributions received offset by first year operating cost for preparation of a Recycled Water Facilities Master Plan, related CEQA/NEPA Documentation and rate study.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is intended to provide the Board of Directors, customers, taxpayers, creditors, and other interested parties with general overview of the Authority's financial operations and condition at the year ended December 31, 2013, and to demonstrate the Authority's accountability for the funds it receives. If you have any questions about this report or need additional information, you may contact City of Palmdale, Finance Department, at 38300 Sierra Highway, Suite D, Palmdale, CA 93550. 661/267/5414,

[http://www.cityofpalmdale.org/city\\_hall/prwa.html](http://www.cityofpalmdale.org/city_hall/prwa.html)

**PALMDALE RECYCLED WATER AUTHORITY**

Statement of Net Position

December 31, 2013

**ASSETS**

Current Assets:

Cash and Cash Equivalents \$ 181,184

Total Assets 181,184

**LIABILITIES**

Current Liabilities:

Accounts payable 50,343

Total Liabilities 50,343

**NET POSITION**

Unrestricted 130,841

Total Net Position \$ 130,841

See accompanying notes to the financial statements



**PALMDALE RECYCLED WATER AUTHORITY**  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended December 31, 2013

**OPERATING REVENUES**

|                             |                |
|-----------------------------|----------------|
| Member Agency Contributions | \$ 200,000     |
| Total Operating Revenues    | <u>200,000</u> |

**OPERATING EXPENSES**

|                                        |                |
|----------------------------------------|----------------|
| Contract Services-Engineering Services | 58,646         |
| Marketing and Outreach                 | 1,496          |
| Utilities-Water                        | <u>9,052</u>   |
| Total Operating Expenses               | <u>69,194</u>  |
| Operating Income                       | <u>130,806</u> |

**NON-OPERATING REVENUE**

|                                |                          |
|--------------------------------|--------------------------|
| Investment Income              | <u>35</u>                |
| Total Non-Operating Revenue    | <u>35</u>                |
| Change in Net Position         | 130,841                  |
| Net Position-Beginning of Year | <u>-</u>                 |
| Net Position-End of Year       | <u><u>\$ 130,841</u></u> |

See accompanying notes to the financial statements

**PALMDALE RECYCLED WATER AUTHORITY**

Statement of Cash Flows

For the Year Ended December 31, 2013

Cash Flows from Operating Activities:

|                                           |                   |
|-------------------------------------------|-------------------|
| Cash Received from member agencies        | \$ 200,000        |
| Cash payments for operating expenses      | <u>(18,851)</u>   |
| Net Cash Provided by Operating Activities | <u>\$ 181,149</u> |

Cash Flows from Investing Activities:

|                                           |           |
|-------------------------------------------|-----------|
| Investment Income                         | <u>35</u> |
| Net Cash Provided by Investing Activities | <u>35</u> |

Net increase in cash and cash equivalents 181,184

Cash and cash equivalents at the beginning of the year -

Cash and cash equivalents at the end of the year \$ 181,184

Reconciliation of operating income to net cash provided for operating activities:

Operating Income \$ 130,806

Change in liabilities:

Increase in accounts payable 50,343

Net cash provided by operating activities \$ 181,149

See accompanying notes to the financial statements



## **PALMDALE RECYCLED WATER AUTHORITY**

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

### **Note 1- Organization and Summary of Significant Accounting Policies**

#### **A. Reporting Entity**

The Palmdale Recycled Water Authority (Authority) was formed under a Joint Exercise of Powers Authority on September 26, 2012, pursuant to Sections 6506 and 6507 of the Exercise of Powers Act, codified at California Government Code sections 6500, 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 (City) and Palmdale Water District, an Irrigation District under Division 11 of the California Water Code (PWD). The Authority is an independent public agency separate from the 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.

#### **B. Basic Financial Statements**

The Authority's basic financial statements consist of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, and the Notes to the Basic Financial Statements.

#### **C. Basis of Presentation**

The Authority accounts for its activities as an enterprise fund. An enterprise fund is a proprietary type fund used to account for 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 Authority's basic financial statements have been prepared on the accrual basis of accounting, and are presented on an economic measurement focus reporting all economic resources and obligation for the period ended December 31, 2013.



## **PALMDALE RECYCLED WATER AUTHORITY**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2013

The accounting policies of the Authority are in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The fiscal year ended December 31, 2013 is the first year of operations of the Authority. As of January 1, 2013, the Authority has applied all applicable GASB pronouncements.

### **D. Net Position**

In the Statement of Net Position, net position is classified in the following categories:

- Net investment in capital assets – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets as applicable.
- Restricted net position – This amount consists of restricted assets reduced by liabilities. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Unrestricted net position – This amount is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

### **E. Operating and Non-Operating Revenues and Expenses**

The Authority's primary purpose is to promote, develop, and distribute recycled water resources created by the Los Angeles County Sanitation District Nos. 14 and 20 for beneficial uses by the member agencies and by local residential and commercial customers. Future operating revenues will consist of charges for water sales to customers for recycled water and currently operating revenues consist of member contributions to defray the cost of the Authority's operation. Operating expenses include the cost of sales and services, maintenance of capital assets and depreciation on capital assets.



## PALMDALE RECYCLED WATER AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

### F. Cash and Cash Equivalents

Cash and cash equivalents include demand deposits. For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as short-term deposits with original maturities of three months or less from the date of acquisition.

### G. Use of Estimates

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

### H. Implemented Accounting Pronouncements

During 2013, the Authority adopted GASB Statement No. 61 – In November 2010 GASB issued Statement no. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14. and No. 34.* The objective of this Statement is to improve financial reporting for a governmental financial reporting entity and modifies certain requirements for inclusion of component units in the financial reporting entity. The implementation did not have any significant impact on the Authority's financial statements.

During 2013, the Authority adopted GASB Statement No. 65 – In March 2012 GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation did not have any significant impact on the Authority's financial statements.

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66-*Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The implementation did not have any significant impact on the Authority's financial statements.



## PALMDALE RECYCLED WATER AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

### I. New Accounting Pronouncements

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are not administered through trust covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pension. The Statement is effective for periods beginning after June 15, 2013. The Authority is not a plan therefore it is not applicable.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014, or December 31, 2015. The Authority has not determined the effect on the financial statements.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The Statement is effective for periods beginning after December 15, 2013, or December 31, 2014. The Authority has not determined the effect on the financial statements.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The Statement is effective for periods beginning after June



**PALMDALE RECYCLED WATER AUTHORITY**

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

15, 2013, or December 31, 2014. The Authority has not determined the effect on the financial statements.

**Note 2-Cash and Investments**

Cash and investments at December 31, 2013 are classified in the accompanying financial statements as follows:

Statement of net position:

|                           |                  |
|---------------------------|------------------|
| Cash and Cash Equivalents | <u>\$181,184</u> |
|---------------------------|------------------|

Cash and investments as of December 31, 2013 consist of the following:

|                                      |                  |
|--------------------------------------|------------------|
| Deposits with financial institutions | <u>\$181,184</u> |
|--------------------------------------|------------------|

**A. Investment Policy and Authorized Investments**

The Authority is authorized under California Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase of reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations as specified in Section 5366. The Authority does not have a formal policy for investments that is more restrictive than the noted Government Code.

**B. Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority does not have a policy of custodial credit risk for deposits. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for



## **PALMDALE RECYCLED WATER AUTHORITY**

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

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

### **Note 3-Contributions from Member Agencies**

Section 5.2 of the Joint Exercise of Powers Agreement Creating the Palmdale Recycled Water Authority provides that any Member may make contributions of money or assets to the Authority; make or advance payments of public funds to defray the cost of Authority operation; and contribute personnel, equipment or property instead of or in addition to other contributions or advances. Such contributions shall be paid to and disbursed by the Authority as set out in separate agreements between the Authority and the member and approved by the Board and the governing body of the Member. During 2013, each member agency contributed \$100,000.

### **Note 4-Related Party Transactions**

The Board of the Authority has assigned staff from the Palmdale Water District and the City of Palmdale to serve in various administrative duties of the Authority. All payroll cost related to staff time while serving the Palmdale Recycled Water Authority is incurred by the respective agencies and none of the payroll costs are incurred by the Authority nor are they charged to the Authority for such services





**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**

To the Board of Directors  
Palmdale Recycled Water Authority  
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 statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Palmdale Recycled Water Authority (Authority), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 13, 2014.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority'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 determination of financial statement amounts. 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vavrinick, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
May 13, 2014

**PALMDALE WATER DISTRICT  
BOARD MEMORANDUM**

**DATE:** May 14, 2014 **May 21, 2014**  
**TO:** BOARD OF DIRECTORS **Board Meeting**  
**FROM:** Mr. Gordon Phair, Utilities Services Manager  
**VIA:** Mr. Dennis D. LaMoreaux, Executive Director  
Mr. Michael J. Mischel, Assistant Executive Director  
**RE:** ***AGENDA ITEM NO. 9.1 – CONSIDERATION AND POSSIBLE ACTION  
ON TRAINING FOR AUTHORITY DIRECTORS***

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A verbal report on this item will be provided at the meeting.