Palmdale Water District

Annual Financial Report

December 31, 2009 and 2008



Palmdale Water District

Board of Directors as of December 31, 2009

Name	Division	Title	Elected/ Appointed	Term Expires
Jeff Storm	1	Director	Elected	12/11
Gordon Dexter	2	President	Elected	12/13
Linda Godin	3	Treasurer	Elected	12/11
Raul Figueroa	4	Secretary	Elected	12/11
Steve Cordova	5	Vice President	Elected	12/13

Palmdale Water District
Dennis LaMoreaux, General Manager
2029 East Avenue Q
Palmdale, California 93550
(661) 947-4111 – www.palmdalewater.org

Palmdale Water District

Annual Financial Report

For the Years Ended December 31, 2009 and 2008

Palmdale Water District
Annual Financial Report
For the Years Ended December 31, 2009 and 2008

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Financial Section

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Certified Public Accountants
An Accountancy Corporation

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Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA

Independent Auditor's Report

Board of Directors
Palmdale Water District
Palmdale, California

We have audited the accompanying financial statements of the Palmdale Water District (District) as of and for the years ended December 31, 2009 and 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Palmdale Water District as of December 31, 2009 and 2008, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report can be found on page 32.

Management's discussion and analysis on pages 2 through 5 and the other post employment benefits funded status and funding progress of the plan on page 27 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

March 31, 2010
Cypress, California

Charles Z. Fedak & Co. CPAs
An Accountancy Corporation

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The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Palmdale Water District (District) provides an introduction to the financial statements of the District for the years ended December 31, 2009 and 2008. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2009, the District's net assets increased 0.38% or $463,208 from $120,660,504 to $121,123,712. In 2008, the District's net assets decreased 2.86% or ($3,557,145) from $124,217,649 to $120,660,504.
- The District's 2009 operating revenues increased 19.45% or $3,423,293 due to an increase in rates, while in 2008 the District's operating revenues decreased 12.51% or ($2,516,974) from declining water sales.
- The District's 2009 non-operating revenues decreased 20.92% or $1,704,524 due to a decrease in investment earnings and the sale of District property in 2008, while in 2008 non-operating revenues increased 16.78% or $1,170,818 due primarily to the sale of District property for $998,649.
- The District's total expenses decreased $716,920 or 2.39% due primarily to a $1.57 million decrease in operating expenses, while in 2008 the District's total expenses increased $1,285,126 or 4.48% due to a $1.3 million increase in operating expenses.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Financial Analysis of the District, continued

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 10 through 31.

Statement of Net Assets

Condensed Statements of Net Assets

	2009	2008	Change	2007	Change
Assets:					
Current assets	$ 15,413,778	14,055,632	1,358,146	11,660,115	2,395,517
Non-current assets	35,357,794	37,154,399	(1,796,605)	57,012,888	(19,858,489)
Capital assets, net	131,852,958	131,674,473	178,485	116,751,414	14,923,059
Total assets	182,624,530	182,884,504	(259,974)	185,424,417	(2,539,913)
Liabilities:					
Current liabilities	10,580,126	10,697,121	(116,995)	9,146,417	1,550,704
Non-current liabilities	50,920,692	51,526,879	(606,187)	52,060,351	(533,472)
Total liabilities	61,500,818	62,224,000	(723,182)	61,206,768	1,017,232
Net assets:					
Net investment in capital assets	80,847,773	79,639,860	1,207,913	64,583,107	15,056,753
Restricted for debt service	1,547,107	2,819,266	(1,272,159)	1,392	2,817,874
Unrestricted	38,728,832	38,201,378	527,454	59,633,150	(21,431,772)
Total net assets	121,123,712	120,660,504	463,208	124,217,649	(3,557,145)
Total liabilities and net assets	$ 182,624,530	182,884,504	(259,974)	185,424,417	(2,539,913)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $121,123,712 and $120,660,504 as of December 31, 2009 and 2008, respectively.

A portion of the District's net assets, 67% and 66% as of December 31, 2009 and 2008, respectively, reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal years 2009 and 2008, the District showed a positive balance in its unrestricted net assets of $38,728,832 and $38,201,378, respectively, which may be utilized in future years.

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2009	2008	Change	2007	Change
Revenues:					
Operating revenues	$ 21,024,619	17,601,326	3,423,293	20,118,300	(2,516,974)
Non-operating revenues	6,445,188	8,149,712	(1,704,524)	6,978,894	1,170,818
Total revenues	27,469,807	25,751,038	1,718,769	27,097,194	(1,346,156)
Expenses:					
Operating expenses	20,813,544	22,390,311	(1,576,767)	20,688,887	1,701,424
Overhead absorption	(1,493,912)	(1,209,074)	(284,838)	(822,134)	(386,940)
Depreciation expense	5,971,865	5,008,033	963,832	5,075,145	(67,112)
Non-operating expenses	3,949,611	3,768,758	180,853	3,731,004	37,754
Total expenses	29,241,108	29,958,028	(716,920)	28,672,902	1,285,126
Net loss before capital cont.	(1,771,301)	(4,206,990)	2,435,689	(1,575,708)	(2,631,282)
Capital contributions	2,234,509	649,845	1,584,664	3,794,018	(3,144,173)
Change in net assets	463,208	(3,557,145)	4,020,353	2,218,310	(5,775,455)
Net assets, beginning of year	120,660,504	124,217,649	(3,557,145)	121,999,339	2,218,310
Net assets, end of year	$ 121,123,712	120,660,504	463,208	124,217,649	(3,557,145)

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by $463,208 and decreased by ($3,557,145) for the years ended December 31, 2009 and 2008, respectively.

A closer examination of the sources of changes in net assets reveals that:

The District's 2009 operating revenues increased 19.45% or $3,423,293, while in 2008 the District's operating revenues decreased 12.51% or ($2,516,974) from declining water sales.

The District's 2009 non-operating revenues decreased 20.92% or $1,704,524 due to a decrease in investment earnings and the sale of District property in 2008, while in 2008 non-operating revenues increased 16.78% or $1,170,818 due primarily to the sale of District property for $998,649.

The District's total expenses decreased $716,920 or 2.39% due primarily to a $1.57 million decrease in operating expenses, while in 2008 the District's total expenses increased $1,285,126 or 4.48% due to a $1.3 million increase in operating expenses.

Capital Asset Administration

At the end of fiscal year 2009, the District's investment in capital assets amounted to $131,852,958 (net of accumulated depreciation). This investment in capital assets includes land, land rights, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles and construction-in-process. There were numerous capital asset additions in the year 2009 (See Note 7).

Changes in capital asset amounts for 2009 were as follows:

		Balance 2008	Additions	Transfers/ Deletions	Balance 2009
Capital assets:					
Non-depreciable assets	$	78,185,661	5,472,198	(72,615,382)	11,042,477
Depreciable assets		128,316,474	73,293,534	-	201,610,008
Accumulated depreciation		(74,827,662)	(5,971,865)	-	(80,799,527)
Total capital assets, net	$	131,674,473	72,793,867	(72,615,382)	131,852,958

Changes in capital asset amounts for 2008 were as follows:

		Balance 2007	Additions	Transfers/ Deletions	Balance 2008
Capital assets:					
Non-depreciable assets	$	63,740,774	18,639,964	(4,195,077)	78,185,661
Depreciable assets		123,042,676	5,486,205	(212,407)	128,316,474
Accumulated depreciation		(70,032,036)	(5,008,033)	212,407	(74,827,662)
Total capital assets, net	$	116,751,414	19,118,136	(4,195,077)	131,674,473

Debt Administration

In 2009, long-term debt decreased by $1,029,428, due to regular principal payments and amortization on the District's outstanding debts. In 2008, long-term debt decreased by $989,428, due to regular principal payments and amortization on the District's outstanding debts (See Note 9).

Changes in long-term debt amounts for 2009 were as follows:

		Balance 2008	Additions/ Deletions	Principal Payments	Balance 2009
Long-term debt:					
1998 COPs	$	14,737,421	61,531	(730,000)	14,068,952
2004 COPs		37,297,192	(10,959)	(350,000)	36,936,233
Total long-term debt	$	52,034,613	50,572	(1,080,000)	51,005,185

Changes in long-term debt amounts for 2008 were as follows:

		Balance 2007	Additions/ Deletions	Principal Payments	Balance 2008
Long-term debt:					
1998 COPs	$	15,380,890	61,531	(705,000)	14,737,421
2004 COPs		37,643,151	(10,959)	(335,000)	37,297,192
Total long-term debt	$	53,024,041	50,572	(1,040,000)	52,034,613

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Administrative Services Manager at 2029 East Avenue Q, Palmdale, CA 93550 or by phone (661) 947-4111.

Basic Financial Statements

Palmdale Water District
Statement of Net Assets
December 31, 2009 and 2008

Assets		2009	2008
Current assets:			
Cash and cash equivalents (note 2)	$	6,356,129	4,517,792
Restricted – cash and cash equivalents (note 2)		80,607	2,819,266
Investments – short-term (note 2)		760,312	1,009,060
Accrued interest receivable		17,809	77,995
Accounts receivable – water sales and services, net (note 3)		1,962,930	1,178,566
Accounts receivable – property taxes		3,828,049	3,114,086
Accounts receivable – state capital grants		1,295,634	30,000
Accounts receivable – other		42,157	67,589
Materials and supplies inventory		803,894	922,693
Prepaid expenses and other deposits		266,257	318,585
Total current assets		15,413,778	14,055,632
Non-current assets:			
Investments (note 2)		-	6,778,723
Restricted – investments (note 2)		1,466,500	-
Note receivable – property taxes from state (note 4)		180,704	-
State Water Project entitlement, net (note 5)		32,930,644	29,557,836
Deferred charges, net (note 6)		779,946	817,840
Capital assets – not being depreciated (note 7)		11,042,477	78,185,661
Capital assets – being depreciated, net (note 7)		120,810,481	53,488,812
Total non-current assets		167,210,752	168,828,872
Total assets	$	182,624,530	182,884,504
Liabilities and Net Assets			
Current liabilities – payable from unrestricted current assets:			
Accounts payable and accrued expenses	$	1,504,812	2,126,508
Customer deposits for water service		2,100,093	2,001,368
Construction and developer deposits		1,939,772	2,135,264
Deferred property tax assessments		3,000,000	2,420,000
Accrued interest payable		627,852	638,689
Long-term liabilities – due in one year:			
Compensated absences (note 8)		282,597	295,292
Certificates of participation (note 9)		1,125,000	1,080,000
Total current liabilities		10,580,126	10,697,121
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 8)		94,199	98,431
Other post employment benefits payable (note 15)		946,308	473,835
Certificates of participation (note 9)		49,880,185	50,954,613
Total non-current liabilities		50,920,692	51,526,879
Total liabilities		61,500,818	62,224,000
Net assets:			
Net investment in capital assets (note 10)		80,847,773	79,639,860
Restricted for debt service (note 11)		1,547,107	2,819,266
Unrestricted (note 12)		38,728,832	38,201,378
Total net assets		121,123,712	120,660,504
Total liabilities and net assets	$	182,624,530	182,884,504

See accompanying notes to the basic financial statements

Palmdale Water District
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2009 and 2008

	2009	2008
Operating revenues:		
Water sales – commodity charge	$ 12,593,502	11,269,192
Monthly water service charge	5,603,197	5,232,185
Water quality fees	1,093,953	-
Elevation fees	543,458	-
Other water service charges	1,190,509	1,099,949
Total operating revenues	21,024,619	17,601,326
Operating expenses:		
Source of supply – purchased water	3,484,933	3,268,691
Operations and production	2,527,780	2,848,911
Facilities	5,362,757	5,630,833
Engineering	1,422,431	1,500,295
Water conservation	263,376	554,583
Administration	4,149,701	4,317,954
Finance and customer service	3,602,566	4,269,044
Total operating expenses	20,813,544	22,390,311
Operating income(loss) before overhead absorption	211,075	(4,788,985)
Overhead absorption	1,493,912	1,209,074
Operating income(loss) before depreciation expense	1,704,987	(3,579,911)
Depreciation expense	(5,971,865)	(5,008,033)
Operating loss	(4,266,878)	(8,587,944)
Non-operating revenue(expense):		
Property taxes	5,991,668	5,484,434
Investment earnings	48,201	989,683
Energy refunds and rebates	1,342	393,829
Rental income	93,010	79,218
Legal settlements	184,312	-
Gain/(loss) on sale/disposition of capital assets	-	998,649
State Water Project amortization expense	(1,317,226)	(1,094,735)
Deferred charges amortization expense	(37,894)	(37,894)
Interest expense – long-term debt	(2,594,491)	(2,636,129)
Other non-operating revenues/(expenses), net	126,655	203,899
Total non-operating revenues, net	2,495,577	4,380,954
Net loss before capital contributions	(1,771,301)	(4,206,990)
Capital contributions:		
Capital contributions	892,581	-
Capital improvement fees	37,115	619,845
State capital grants	1,304,813	30,000
Total capital contributions	2,234,509	649,845
Change in net assets	463,208	(3,557,145)
Net assets, beginning of year	120,660,504	124,217,649
Net assets, end of year	$ 121,123,712	120,660,504

See accompanying notes to the basic financial statements

Palmdale Water District
Statement of Cash Flows
For the Year Ended December 31, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	20,168,920	17,586,328
Cash paid to vendors and suppliers for materials and services		(12,977,654)	(13,492,379)
Cash paid to employees for salaries and wages		(6,337,001)	(6,311,893)
Net cash provided(used) in operating activities		854,265	(2,217,944)
Cash flows from non-capital financing activities:			
Proceeds from property taxes and assessments		5,677,001	5,262,788
Energy refunds and rebates		1,342	393,829
Rental income		93,010	79,218
Other non-operating revenues/(expenses), net		126,655	203,899
Net cash provided by non-capital financing activities		5,898,008	5,939,734
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(6,150,350)	(19,931,092)
Proceeds from capital contributions		892,581	-
Proceeds from capital improvement fees		37,115	619,845
Proceeds from state capital grants		39,179	30,000
Proceeds from the sale of capital assets		-	998,649
Cash payments for State Water Project entitlement capital costs		(4,690,034)	(2,104,193)
Principal paid on long-term debt		(1,080,000)	(1,040,000)
Interest paid on long-term debt		(2,554,756)	(2,595,824)
Net cash used in capital and related financing activities		(13,506,265)	(24,022,615)
Cash flows from investing activities:			
Proceeds from sale of investments		5,745,283	33,988,613
Purchases of investments		-	(14,167,620)
Interest and investment earnings		108,387	1,227,692
Net cash provided by investing activities		5,853,670	21,048,685
Net increase(decrease) in cash and cash equivalents		(900,322)	747,860
Cash and cash equivalents, beginning of year		7,337,058	6,589,198
Cash and cash equivalents, end of year	$	6,436,736	7,337,058

Reconciliation of cash and cash equivalents to statement of financial position:		2009	2008
Cash and cash equivalents	$	6,356,129	4,517,792
Restricted – cash and cash equivalents		80,607	2,819,266
Total cash and cash equivalents	$	6,436,736	7,337,058

Continued on next page

See accompanying notes to the basic financial statements

Palmdale Water District
Statements of Cash Flows, continued
For the Year Ended December 31, 2009 and 2008

		2009	2008
Reconciliation of operating loss to net cash provided(used) in operating activities:			
Operating loss	$	(4,266,878)	(8,587,944)
Adjustments to reconcile operating loss to net cash provided(used) in operating activities:			
Deprecation expense		5,971,865	5,008,033
Changes in assets and liabilities:			
(Increase)Decrease in assets:			
Accounts receivable – water sales and services, net		(784,364)	(575)
Accounts receivable – other		25,432	(8,047)
Materials and supplies inventory		118,799	(184,828)
Prepaid expenses and other deposits		52,328	(81,510)
Increase(Decrease) in liabilities:			
Accounts payable and accrued expenses		(621,696)	1,080,987
Customer deposits for water service		98,725	141,144
Construction and developer deposits		(195,492)	(147,520)
Compensated absences		(16,927)	88,481
Other post employment benefits payable		472,473	473,835
Total adjustments		5,121,143	6,370,000
Net cash provided(used) in operating activities	$	854,265	(2,217,944)

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). 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 District has no blended or discretely-presented component units.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges (water sales and services), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues, such as water sales and service fees, result from exchange transactions associated with the principal activities of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

D. Implementation of New Governmental Accounting Standards Board (GASB) Statements

Governmental Accounting Standards Board Statement No. 45

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of Other Post Employment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. The District adopted GASB Statement No. 45 in fiscal year 2008. See Note 15 for further details.

E. Assets, Liabilities and Net Assets

1. Use of Estimates

The preparation of the basic 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy directing management to deposit funds in financial institutions.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable and Allowance for Uncollectible 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.

5. Property Taxes and Assessments

The County of Los Angeles Assessor's Office assesses all real and personal property within the County each year. The County of Los Angeles Tax Collector's Office bills and collects the District's share of property taxes and assessments. The County of Los Angeles Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

E. Assets, Liabilities and Net Assets, continued

Property taxes receivable at year-end are related to property taxes collected by the County of Los Angeles, which have not been credited to the District's cash balance as of December 31. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

6. Materials and Supplies

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 items are charged to expense at the time that individual items are consumed.

7. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

8. Restricted Assets

Certain assets of the District are restricted for use by ordinance or debt covenant and, accordingly are shown as restricted assets on the accompanying statement of net assets. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Littlerock Dam	50 years
Buildings, wells and distribution system	40 years
Machinery and equipment	3-20 years

10. State Water Project Entitlement

The District participates in the State Water Project (Project) entitling it to certain water rights. The District's participation in the Project is through cash payments. 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.

11. Deferred Charges

The deferred charges are from bond issuance costs that will be amortized using the straight-line method over the remaining life of the respective debt service.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

E. Assets, Liabilities and Net Assets, continued

12. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated.

13. Customer Deposits

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.

14. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

15. Water Sales

Most water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through December 31, 2009 and 2008 has been accrued at year-end.

16. 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.

17. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

18. Reclassification

The District has reclassified certain prior year information to conform to current year presentations.

(2) Cash and Investments

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

		2009	2008
Cash and cash equivalents	$	6,356,129	4,517,792
Restricted – cash and cash equivalents		80,607	2,819,266
Investments – short-term		760,312	1,009,060
Investments		-	6,778,723
Restricted – investments		1,466,500	-
Total cash and investments	$	8,663,548	15,124,841

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

		2009	2008
Cash on hand	$	3,700	3,700
Deposits with financial institutions		1,979,495	394,230
Investments		6,680,353	14,726,911
Total cash and investments	$	8,663,548	15,124,841

Investments Authorized by the California Government Code and the District's Investment Policy

The following table identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
District Issued Bonds	5 years	None	None
Federal Agency Obligations	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Money Market Mutual 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 of these debt agreements that address **interest rate risk**, **credit risk**, and **concentration of credit risk**.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Investment Contracts	None	None	None
Money Market Mutual Funds	N/A	None	None

(2) Cash and Investments, continued

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District had deposits with bank balances of $1,911,086 and $688,345 as of December 31, 2009 and 2008, respectively. Of the bank balances, up to $250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

(2) Cash and Investments, continued

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Investment maturities as of December 31, 2009, were as follows:

Investment Type	Amount	Remaning Maturity (in Months) 12 Months Or Less	13 to 24 Months	25-60 Months	More than 60 Months
Federal Agency obligations	$ 760,312	760,312	-	-	-
Money market funds	4,361,421	4,361,421	-	-	-
Local Agency Investment Fund (LAIF)	11,513	11,513	-	-	-
Cash with fiscal agent:					
Investment contracts	1,547,107	80,607	-	1,466,500	-
Total	$ 6,680,353	5,213,853	-	1,466,500	-

Investment maturities as of December 31, 2008, were as follows:

Investment Type	Amount	Remaning Maturity (in Months) 12 Months Or Less	13 to 24 Months	25-60 Months	More than 60 Months
Federal Agency obligations	$ 7,787,783	1,009,060	3,165,008	3,613,715	-
Money market funds	2,985,972	2,985,972	-	-	-
Local Agency Investment Fund (LAIF)	11,318	11,318	-	-	-
Cash with fiscal agent:					
Investment contracts	3,941,838	3,941,838	-	-	-
Total	$ 14,726,911	7,948,188	3,165,008	3,613,715	-

(2) Cash and Investments, continued

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Credit ratings as of December 31, 2009, were as follows:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of year-end: AAA	Rating as of year-end: Not Rated
Federal Agency obligations	$ 760,312	AAA	-	760,312	-
Money market funds	4,361,421	N/A	-	-	4,361,421
Local Agency Investment Fund (LAIF)	11,513	N/A	-	-	11,513
Cash with fiscal agent:					
Investment contracts	1,547,107	AAA	-	1,466,500	80,607
Total	$ 6,680,353		$ -	2,226,812	4,453,541

Credit ratings as of December 31, 2008, were as follows:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of year-end: AAA	Rating as of year-end: Not Rated
Federal Agency obligations	$ 7,787,783	AAA	-	7,787,783	-
Money market funds	2,985,972	N/A	-	-	2,985,972
Local Agency Investment Fund (LAIF)	11,318	N/A	-	-	11,318
Cash with fiscal agent:					
Investment contracts	3,941,838	AAA	-	-	3,941,838
Total	$ 14,726,911		$ -	7,787,783	6,939,128

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

Issuer	Investment Type	Invested Amount 2009	Invested Amount 2008
Federal National Mortgage Association	Federal Agency obligations	$ 760,312	1,796,793
Federal Home Loan Mortgage	Federal Agency obligations	-	3,407,705
Federal Home Loan Bank	Federal Agency obligations	1,466,500	2,583,285
Total		$ 2,226,812	7,787,783

(3) Accounts Receivable – Water Sales and Services, Net

The balance at December 31, consists of the following:

	2009	2008
Accounts receivable – water sales and services	$ 2,255,628	1,395,985
Allowance for uncollectible accounts	(292,698)	(217,419)
Accounts receivable – water sales and services, net	$ 1,962,930	1,178,566

(4) Note Receivable – Property Taxes From State

On July 28, 2009, the Governor signed into law ABx4-15 which directs the State to borrow 8% of the local property tax due to cities, counties and special districts in fiscal year 2009-10 under Proposition 1A. The State will repay this Proposition 1A note with interest at 2.00% by June 30, 2013.

(5) State Water Project Entitlement

Changes in the State Water Project entitlement balance in 2009, were as follows:

		Balance 2008	Additions	Deletions	Balance 2009
State Water Project entitlement capital costs	$	42,253,237	4,690,034	-	46,943,271
Accumulated amortization		(12,695,401)	(1,317,226)	-	(14,012,627)
State Water Project entitlement, net	$	29,557,836	3,372,808	-	32,930,644

Changes in the State Water Project entitlement balance in 2008, were as follows:

		Balance 2007	Additions	Deletions	Balance 2008
State Water Project entitlement capital costs	$	40,149,044	2,104,193	-	42,253,237
Accumulated amortization		(11,600,666)	(1,094,735)	-	(12,695,401)
State Water Project entitlement, net	$	28,548,378	1,009,458	-	29,557,836

In 1963, the District contracted with the State of California (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 its own or though joint venture, 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 expense 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. Amortization expense totaled $1,317,226 and $1,094,735 for the fiscal years ended December 31, 2009 and 2008.

(6) Deferred Charges

The deferred charges balance relates to the bond issuance costs for the District's 1998 and 2004 Certificates of Participation. The balance is being amortized over the lives of the respective debt issuances. The deferred charges net balances are as follows:

The balance at December 31, consists of the following:

		2009	2008
1998 Certificates of Participation issuance costs, net	$	197,410	211,767
2004 Certificates of Participation issuance costs, net		582,536	606,073
Deferred charges, net	$	779,946	817,840

(7) Capital Assets

Changes in capital assets for 2009, were as follows:		Balance 2008	Additions/ Transfers	Deletions/ Transfers	Balance 2009
Non-depreciable assets:					
Land and land rights	$	1,155,763	-	-	1,155,763
Construction-in-process		77,029,898	6,150,350	(73,293,534)	9,886,714
Total non-depreciable assets		78,185,661	6,150,350	(73,293,534)	11,042,477
Depreciable assets:					
Buildings, wells and distribution system		119,663,041	72,916,009	-	192,579,050
Machinery and equipment		8,653,433	377,525	-	9,030,958
Total depreciable assets		128,316,474	73,293,534	-	201,610,008
Accumulated depreciation:					
Buildings, wells and distribution system		(69,997,986)	(5,069,721)	-	(75,067,707)
Machinery and equipment		(4,829,676)	(902,144)	-	(5,731,820)
Total accumulated depreciation		(74,827,662)	(5,971,865)	-	(80,799,527)
Total depreciable assets, net		53,488,812	67,321,669	-	120,810,481
Total capital assets, net	$	131,674,473	73,472,019	(73,293,534)	131,852,958

Changes in capital assets for 2008, were as follows:		Balance 2007	Additions/ Transfers	Deletions/ Transfers	Balance 2008
Non-depreciable assets:					
Land and land rights	$	1,155,763	-	-	1,155,763
Construction-in-process		62,585,011	18,639,964	(4,195,077)	77,029,898
Total non-depreciable assets		63,740,774	18,639,964	(4,195,077)	78,185,661
Depreciable assets:					
Buildings, wells and distribution system		117,283,509	2,379,532	-	119,663,041
Machinery and equipment		5,759,167	3,106,673	(212,407)	8,653,433
Total depreciable assets		123,042,676	5,486,205	(212,407)	128,316,474
Accumulated depreciation:					
Buildings, wells and distribution system		(65,662,585)	(4,335,401)	-	(69,997,986)
Machinery and equipment		(4,369,451)	(672,632)	212,407	(4,829,676)
Total accumulated depreciation		(70,032,036)	(5,008,033)	212,407	(74,827,662)
Total depreciable assets, net		53,010,640	478,172	-	53,488,812
Total capital assets, net	$	116,751,414	19,118,136	(4,195,077)	131,674,473

(7) Capital Assets, continued

Construction-In-Process

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at December 31 are as follows:

The balance at December 31, consists of the following projects:	2007	2008	2009
Water Treatment Plant improvements – Phase I	$ 15,626,636	15,893,417	-
Water Treatment Plant improvements – Phase II	30,181,796	42,525,261	-
3 - 4 M.G. Storage tanks	6,300,021	6,631,107	-
SCADA retrofit of Water Treatment Plant	1,267,000	-	-
Energy recovery system – Palmdale Lake	2,594,171	3,349,082	-
Distribution telemetry upgrade	990,902	1,903,760	2,004,270
10 M.G.D. Treatment plant (New Facility)	913,213	908,827	908,827
Replace water main (Lilacview)	-	732,439	-
Well No. 29 activation (New Facility)	-	613,240	-
Energy bridge project	756,960	769,030	769,124
Sediment removal – Littlerock Dam	376,620	518,222	538,505
NaOCI onsite generators upgrade	-	508,000	-
Palmdale ditch enclosure	-	393,864	2,642,564
Well 24A drill and equipment	-	195,582	618,802
Well 29 drill equipment and activation	-	30,087	614,085
Distribution master plan	-	448,692	503,939
Recycled facilities master plan	-	2,598	234,984
Various other minor projects	3,577,692	1,606,690	1,051,614
Construction-in-process	$ 62,585,011	77,029,898	9,886,714

(8) Compensated Absences

Changes in compensated absences for 2009, were as follows:

Balance 2008	Earned	Taken	Balance 2009	Current Portion	Long-term Portion
$ 393,723	714,708	(731,635)	376,796	282,597	94,199

Changes in compensated absences for 2008, were as follows:

Balance 2007	Earned	Taken	Balance 2008	Current Portion	Long-term Portion
$ 305,242	3,040,577	(2,952,096)	393,723	295,292	98,431

(9) Long-term Debt

Certificates of Participation:

Changes in long-term debt amounts for 2009, were as follows:

		Balance 2008	Additions/ Deletions	Principal Payments	Balance 2009
Long-term debt:					
1998 – Certificates of Participation	$	15,645,000	-	(730,000)	14,915,000
1998 – Discount		(236,272)	16,019	-	(220,253)
1998 – Loss on Defeasance		(671,307)	45,512	-	(625,795)
2004 – Certificates of Participation		37,015,000	-	(350,000)	36,665,000
2004 – Premium		282,192	(10,959)	-	271,233
Total long-term debt	$	52,034,613	50,572	(1,080,000)	51,005,185
Less: Current portion		(1,080,000)			(1,125,000)
Total Non-current portion	$	50,954,613			49,880,185

Changes in long-term debt amounts for 2008, were as follows:

		Balance 2007	Additions/ Deletions	Principal Payments	Balance 2008
Long-term debt:					
1998 – Certificates of Participation	$	16,350,000	-	(705,000)	15,645,000
1998 – Discount		(252,291)	16,019	-	(236,272)
1998 – Loss on Defeasance		(716,819)	45,512	-	(671,307)
2004 – Certificates of Participation		37,350,000	-	(335,000)	37,015,000
2004 – Premium		293,151	(10,959)	-	282,192
Total long-term debt	$	53,024,041	50,572	(1,040,000)	52,034,613
Less: Current portion		(1,040,000)			(1,080,000)
Total Non-current portion	$	51,984,041			50,954,613

1998 Certificates of Participation

In April 1998, the District issued $21,925,000 of Refunding Revenue Certificates of Participation, Series 1998 (1998 COPs), with maturities from 1998 through 2023 and an average interest rate of 4.73%. The net proceeds of approximately $21,150,000 (plus an additional $2.9 million of District funds) were used to accomplish an advance refunding (an in-substance defeasance) of $23,210,000 aggregate principal amount of the District's Certificates of Participation (Refunding and Water Facilities and Improvement Project) Series 1991 and Certificates of Participation (Littlerock Dam Project) Series 1993A, with an average interest rate of 5.78%. The initial escrow deposit was used to purchase state and local government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1991 and Series 1993A Certificates of Participation.

The advance refunding resulted in a different between the reacquisition price and the net carrying value amount of the old debt of $1,160,564. This difference is being amortized through 2023 (the life of the debt) using the straight-line method. The District completed the advance refunding to reduce its total debt service payments over the next 25 years by approximately $6.5 million and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately $3.4 million.

(9) Long-Term Debt, continued

The future annual debt service requirements for the 1998 Certificates of Participation are as follows:

Year		Principal	Interest	Total
2010	$	770,000	740,863	1,510,863
2011		800,000	705,250	1,505,250
2012		840,000	667,250	1,507,250
2013		880,000	625,250	1,505,250
2014		925,000	581,250	1,506,250
2015-2019		5,360,000	2,165,000	7,525,000
2020-2023		5,340,000	683,750	6,023,750
Total	$	14,915,000	6,168,613	21,083,613
Less: current		(770,000)		
Total non-current	$	14,145,000		

2004 Certificates of Participation

In August 2004, the District issued $38,285,000 of Revenue Certificates of Participation, Series 2004 (2004 COPs), 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 COP's resulted in a premium of $328,767 which is being amortized over the life of the issue using the straight-line method. Annual debt service requirements for the 2004 Certificates of Participation are as follows:

Year		Principal	Interest	Total
2010	$	355,000	1,770,542	2,125,542
2011		370,000	1,759,892	2,129,892
2012		380,000	1,746,942	2,126,942
2013		395,000	1,733,642	2,128,642
2014		410,000	1,718,830	2,128,830
2014-2018		2,325,000	8,332,743	10,657,743
2019-2023		4,350,000	7,802,476	12,152,476
2024-2028		12,335,000	5,847,000	18,182,000
2029-2033		15,745,000	2,438,750	18,183,750
Total	$	36,665,000	33,150,817	69,815,817
Less: current		(355,000)		
Total non-current	$	36,310,000		

(10) Net Investment in Capital Assets

The balance at December 31, consists of the following:		2009	2008
Capital assets – not being depreciated	$	11,042,477	78,185,661
Capital assets – being depreciated, net		120,810,481	53,488,812
Certificates of participation – current portion		(1,125,000)	(1,080,000)
Certificates of participation – non-current portion		(49,880,185)	(50,954,613)
Net investment in capital assets	$	80,847,773	79,639,860

(11) Restricted Net Assets

The balance at December 31, consists of the following:		2009	2008
Restricted – cash and cash equivalents	$	80,607	2,819,266
Restricted – investments		1,466,500	-
Net investment in capital assets	$	1,547,107	2,819,266

(12) Reservations of Unrestricted Net Assets

For internal purposes, the Board of Directors adopted a reserve policy to reserve unrestricted net assets. The reserves are meant to reflect the intentions of the Board for those net assets not legally restricted. The reserve balances for the years ending December 31, 2009 and 2008 are as follows:

The balance at December 31, consists of the following:		2009	2008
Non-spendable or long-term net assets:			
Materials and supplies inventory	$	803,894	922,693
Prepaid expenses and other deposits		266,257	318,585
Note receivable – property taxes from state		180,704	-
State Water Project entitlement, net		32,930,644	29,557,836
Deferred charges, net		779,946	817,840
Total prepaid net assets		34,961,445	31,616,954
Board designated net assets:			
Operations and maintenance reserve		2,500,000	-
Debt service reserve		-	2,819,266
Rate stabilization reserve		-	1,122,572
Water facilities connection fees		-	100,000
Total board designated net assets:		2,500,000	4,041,838
Undesignated net assets		1,267,387	2,542,586
Total unrestricted net assets	$	38,728,832	38,201,378

(13) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (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. Market value of all plan assets held in trust by the Lincoln Financial Group at December 31, 2009 and 2008 was $2,357,381 and $1,702,971, respectively.

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 statement of net assets.

(14) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained form their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates for fiscal years 2009, 2008 and 2007 were as follows:

Time Period	2009	2008	2007
Jan. 1 - June 30	10.287%	9.817%	9.529%
July 1 - Dec. 31	10.392%	10.287%	9.817%

The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2009, 2008 and 2007, the District's annual contribution was $993,114, $910,938, and $881,883, respectively, for CalPERS and was equal to the District's required and actual contributions for each year.

(15) Other Post Employment Benefits Payable

During the fiscal year ended December 31, 2008, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

Plan Description – Eligibility

The District administers its post-employment benefits plan, a single-employer defined benefit plan (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).

Membership in the OPEB plan consisted of the following members as of December 31:

	2009	2008	2007
Active plan members	81	87	88
Retirees and beneficiaries receiving benefits	8	5	4
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	89	92	92

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.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 8.48% for 2009 and 8.27% for 2008 of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

(15) Other Post Employment Benefits Payable, continued

Annual Cost

For the years ended June 30, 2009 and 2008, the ARC cost is $535,321, and $62,848, or 11.74%, in contributions were made and the ARC cost is $521,734, and $47,899, or 9.18%, in contributions were made, respectively. The net other post-employment payable as of December 31, 2009 and 2008 are $946,308 and $473,835, respectively.

The balance at December 31, consists of the following:		2009	2008	2007
Annual OPEB expense:				
Annual required contribution (ARC)	$	538,690	521,734	-
Interest on net OPEB obligation		9,761	-	-
Adjustment to annual required contribution		(13,130)	-	-
Total annual OPEB expense		535,321	521,734	-
Change in net OPEB payable obligation:				
Age adjusted contributions made		(62,848)	(47,899)	-
Total change in net OPEB payable obligation		472,473	473,835	-
OPEB payable – beginning of year		473,835	-	-
OPEB payable – end of year	$	946,308	473,835	-

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2009 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended		Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation Payable
2009	$	535,321	62,848	11.74%	$	472,473
2008	$	521,734	47,899	9.18%	$	473,835
2007*		-	-	0.00%		-

* The information for the two preceding years is unavailable.
GASB No. 45 was implemented in fiscal year 2008.

(15) Other Post Employment Benefits Payable, continued

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

Fiscal Year	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	$ -	4,497,022	4,497,022	0.00%	$ 6,337,001	70.96%
2008	$ -	4,497,022	4,497,022	0.00%	$ 6,311,893	71.25%

The most recent valuation (dated December 31, 2008) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $4,497,022. There are no plan assets because the District funds on a pay-as-you-go basis and maintains net assets equal to the remaining net post-employment benefits payable obligation. The covered payroll (annual payroll of active employees covered by the plan) for the year ended December 31, 2009 and 2008 was $6,337,001 and $6,311,893, respectfully. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 70.96% and 71.25% as of December 31, 2009 and 2008, respectfully.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	December 31, 2008
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	30 Years as of the valuation date
Asset valuation method	15 Year smoothed market
Actuarial assumptions:	
Investment rate of return	2.50% – Current LAIF rating (rounded)
Projected salary increase	3.25%
Inflation - discount rate	2.06%
Individual salary growth	District annual COLA

(16) Risk Management

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. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At December 31, 2009, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability: The District has a zero deductible for general and auto liability. The District purchased additional excess coverage layers: $40 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid based on the replacement cost for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis, to a combined total of $50 million per occurrence it is subject to a $2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to $50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Public officials' personal liability coverage up to $100,000 for each occurrence, with an annual aggregate of $100,000 per each elected/appointed official to which this coverage applies is subject to the terms, with a deductible of $1,000 per claim.
- Workers' compensation insurance provides coverage up to California statutory limit of $2 million for all work related injuries/illnesses covered by California law. The District has purchased an additional policy for an additional $2 million in coverage.

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, 2009, 2008 and 2007. 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, 2009 and 2008.

(17) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to December 31, 2009, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 51

In June 2008, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement is not effective for this District until the fiscal year ended December 31, 2010. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 53

In June 2009, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement is not effective for this District until the fiscal year ended December 31, 2010. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

(16) 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:

Fiscal Year		Amount
2010	$	6,898,729
2011		6,444,082
2012		3,606,933
2013		6,118,316
2014		5,712,016

As of December 31, 2009, the District has expended $72,370,493 since the District started participating in the State Water Contract.

(18) Commitments and Contingencies, continued

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:

Type of Long-Term Obligation		Amount
State Water Project Contract:		
Transportation facilities	$	107,979,583
Conservation facilities		21,093,618
Off-aqueduct power facilities		4,572,613
Revenue bond surcharge		5,295,770
Total	$	138,941,584

The amounts shown above do not contain any escalation for inflation and are subject to significant variation over time because the amounts are based on a number of assumptions and are contingent on future events. Accordingly, none of the estimated long-term obligations are recorded as liabilities in the accompanying basic financial statements.

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 (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 a beneficiaries pay policy, that is new costs would be 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.

There are other pending actions that may adversely impact the District's ability to control the sale of water transported through the SWP into its service area. The impact on future revenues of such actions cannot be determined.

(18) Commitments and Contingencies, continued

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 $9,470,500 in open construction contracts as of December 31, 2009. These include the following:

Project Name		Estimated Costs to Complete
Wells No. 24A and No. 36	$	2,500,000
Distribution SCADA system upgrades		1,500,000
Storage tank maintenance		1,080,000
Water main replacement project - 0901		750,000
Water main replacement project - 1001		700,000
Water main replacement project - 0902		600,000
Water main replacement project - 0805		475,000
Water main replacement project - 1002		375,000
Stategic water resources plan		250,000
Littlerock Dam sediment removal		250,000
Recycled water master plan		125,000
Various other minor projects		865,500
Total	$	9,470,500

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.

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Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Palmdale Water District
Palmdale, California

We have audited the basic financial statements of the Palmdale Water District (District) as of and for the year ended December 31, 2009, and have issued our report thereon dated March 31, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

March 31, 2010
Cypress, California

Charles Z. Fedak & Co. CPAs
An Accountancy Corporation