

# **Palmdale Water District**

Palmdale, California

## **Annual Financial Report**

*For the Years Ended December 31, 2016 and 2015*





**Palmdale Water District  
Annual Financial Report  
For the Years Ended December 31, 2016 and 2015**

**Table of Contents**

	<u>Page</u>
<b>Board Members, General Manager and General Counsel</b>	
<b>Table of Contents</b> .....	i
 <b><u>FINANCIAL SECTION</u></b>	
<b>Independent Auditors' Report on the Financial Statements</b> .....	1
<b>Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....	5
<b>Management's Discussion and Analysis – Required Supplementary Information (Unaudited)</b> .....	7
 <b>Basic Financial Statements:</b>	
Balance Sheets.....	16
Statements of Revenues, Expenses, and Changes in Net Position .....	18
Statements of Cash Flows .....	19
Notes to the Basic Financial Statements.....	23
 <b>Required Supplementary Information (Unaudited):</b>	
Schedule of the District's Proportionate Share of the Plan's Net Pension Liability .....	63
Schedule of the District's Contributions to the Pension Plans .....	64
Schedule of Funding Progress – Other Post-Employment Benefits Plan.....	65
 <b>Supplementary Information:</b>	
Schedules of Debt Service Net Revenues Coverage .....	69

*This page intentionally left blank.*

## **FINANCIAL SECTION**

*This page intentionally left blank.*



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
of Palmdale Water District  
Palmdale, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Palmdale Water District (District), which comprise the balance sheets as of , December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

### ***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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

200 East Sandpointe Avenue, Suite 600, Santa Ana, California 92707

Tel: 949-777-8800 • Fax: 949-777-8850

[www.pungroup.com](http://www.pungroup.com)

To the Board of Directors  
of Palmdale Water District  
Palmdale, California

***Emphasis of Matter***

***Net Pension Liability***

The deficit unrestricted net position in the amount of (\$8,596,552) and (\$6,946,757) for the years ended December 31, 2016 and 2015, respectively, resulted from the reporting of the District's net pension liability and pension-related debt – CalPERS side-fund as discussed in Note 11. At December 31, 2016 and 2015, the District's net pension liability and pension-related debt – CalPERS side-fund combined amounted to \$8,685,489 and \$6,727,908, respectively. Our opinion is not modified with respect to this matter.

***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 7 through 13 and the Schedule of the District's Proportionate Share of the Plan's Net Pension Liability, the Schedule of the District's Contributions to the Pension Plan, and the Schedule of Funding Progress – Other Post-Employment Benefits Plan on pages 63 through 65, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The Schedules of Debt Service Net Revenues Coverage on page 69 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Directors  
of Palmdale Water District  
Palmdale, California

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California  
May 15, 2017

*This page intentionally left blank.*



**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***

**Independent Auditors' Report**

To the Board of Directors  
of Palmdale Water District  
Palmdale, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheets of Palmdale Water District (District) as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated May 15, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

200 East Sandpointe Avenue, Suite 600, Santa Ana, California 92707

Tel: 949-777-8800 • Fax: 949-777-8850

[www.pungroup.com](http://www.pungroup.com)

To the Board of Directors  
of Palmdale Water District  
Palmdale, California  
Page 2

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*The Per Group, LLP*

Santa Ana, California  
May 15, 2017

**Palmdale Water District**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Years Ended December 31, 2016 and 2015**

---

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of Palmdale Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended December 31, 2016 and 2015. 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 2016, the District's net position decreased (1.63%) or (\$1,581,590) from the prior year's net position of \$96,645,100 to \$95,063,510, as a result of this year's operations.
- In 2015, the District's net position decreased (2.61%) or (\$2,764,671) from the prior year's net position of \$105,637,337 to \$102,872,666, as a result of this year's operations. Also, the District recorded a prior period adjustment of (\$6,227,566) to account for the implementation of GASB Nos. 68 and 71 to record the District's net pension liability on the statement of net position.
- In 2016, the District's operating revenues increased by 6.30% or \$1,338,382 from \$21,248,419 to \$22,586,801, from the prior year, primarily due to an increase in water sales – commodity charge of \$1,244,148 and monthly meter service charge of \$517,986.
- In 2015, the District's operating revenues decreased by (8.97%) or (\$2,093,217) from \$23,341,636 to \$21,248,419, from the prior year, primarily due to a decrease in water sales – commodity charge of (\$1,330,750) due to the California drought crisis that mandates water conservation measures.
- In 2016, the District's operating expenses before overhead absorption and depreciation expense increased by 11.74% or \$2,385,023 from \$20,319,286 to \$22,704,309, from the prior year, primarily due to an increase in source of supply – water purchases or \$821,790, facilities expense or \$781,420, and administration or \$523,215.
- In 2015, the District's operating expenses before overhead absorption and depreciation expense decreased by (9.31%) or \$2,086,111 from \$22,405,397 to \$20,319,286, from the prior year, primarily due to a decrease in source of supply – water purchases or (\$1,520,922) as a result of the decrease in water sales.

**Required Financial Statements**

This annual report consists of a series of financial statements. The Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position 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 Balance Sheet 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 Position. 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.

**Palmdale Water District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Years Ended December 31, 2016 and 2015**

**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 Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position 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 method 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.

Also, these two statements report the District's *net position* and changes in them. You can think of the District's net position – 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 position 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.

**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.

**Condensed Statement of Net Position**

	Balance December 31, 2016	Balance December 31, 2015	Change	Balance December 31, 2014	Change
<b>Assets:</b>					
Current assets	\$ 21,288,561	\$ 20,417,825	\$ 870,736	\$ 26,345,253	\$ (5,927,428)
Non-current assets	724,599	1,421,189	(696,590)	65,420	1,355,769
Capital assets, net	154,023,911	154,946,564	(922,653)	153,780,266	1,166,298
<b>Total assets</b>	<u>176,037,071</u>	<u>176,785,578</u>	<u>(748,507)</u>	<u>180,190,939</u>	<u>(3,405,361)</u>
<b>Deferred outflows of resources</b>	<u>4,724,093</u>	<u>3,684,911</u>	<u>1,039,182</u>	<u>2,791,901</u>	<u>893,010</u>
<b>Total assets and deferred outflows</b>	<u>\$ 180,761,164</u>	<u>\$ 180,470,489</u>	<u>\$ 290,675</u>	<u>\$ 182,982,840</u>	<u>\$ (2,512,351)</u>
<b>Liabilities:</b>					
Current liabilities	7,927,578	7,732,125	195,453	11,463,106	(3,730,981)
Non-current liabilities	73,812,181	71,738,424	2,073,757	65,882,397	5,856,027
<b>Total liabilities</b>	<u>81,739,759</u>	<u>79,470,549</u>	<u>2,269,210</u>	<u>77,345,503</u>	<u>2,125,046</u>
<b>Deferred inflows of resources</b>	<u>3,957,895</u>	<u>4,354,840</u>	<u>(396,945)</u>	<u>-</u>	<u>4,354,840</u>
<b>Net position:</b>					
Net investment in capital assets	103,339,383	103,361,934	(22,551)	103,774,107	(412,173)
Restricted	320,679	229,923	90,756	65,420	164,503
Unrestricted	(8,596,552)	(6,946,757)	(1,649,795)	1,797,810	(8,744,567)
<b>Total net position</b>	<u>95,063,510</u>	<u>96,645,100</u>	<u>(1,581,590)</u>	<u>105,637,337</u>	<u>(8,992,237)</u>
<b>Total liabilities, deferred inflows and net position</b>	<u>\$ 180,761,164</u>	<u>\$ 180,470,489</u>	<u>\$ 290,675</u>	<u>\$ 182,982,840</u>	<u>\$ (2,512,351)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$95,063,510, \$96,645,100 and \$105,637,337 as of December 31, 2016, 2015 and 2014, respectively.

By far the largest portion of the District's net position (109% as of December 31, 2016, 107% as of December 31, 2015 and 98% as of December 31, 2014) 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 its customers; consequently, these assets are not available for future spending.

**Palmdale Water District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Years Ended December 31, 2016 and 2015**

In 2015, the District implemented GASB Statements No. 68 and 71, which the District recognized a prior period adjustment of (\$6,227,566) as of January 1, 2015. See Note 12 for further information.

At the end of fiscal years 2016 and 2015 the District showed a negative (deficit) balance in its unrestricted net position of (\$8,596,552) and (\$6,946,757). At the end of fiscal year 2014 the District showed a positive balance in its unrestricted net position of \$1,797,810.

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

	Balance December 31, 2016	Balance December 31, 2015	Change	Balance December 31, 2014	Change
Operating revenues	\$ 22,586,801	\$ 21,248,419	\$ 1,338,382	\$ 23,341,636	\$ (2,093,217)
Operating expenses	(22,704,309)	(20,319,286)	(2,385,023)	(22,405,397)	2,086,111
<b>Operating income before overhead absorption</b>	<u>(117,508)</u>	<u>929,133</u>	<u>(1,046,641)</u>	<u>936,239</u>	<u>(7,106)</u>
Overhead absorption	152,890	26,134	126,756	508,818	(482,684)
<b>Operating income before depreciation</b>	<u>35,382</u>	<u>955,267</u>	<u>(919,885)</u>	<u>1,445,057</u>	<u>(489,790)</u>
Depreciation expense	(5,599,740)	(7,957,867)	2,358,127	(7,166,973)	(790,894)
<b>Operating (loss) after depreciation</b>	<u>(5,564,358)</u>	<u>(7,002,600)</u>	<u>1,438,242</u>	<u>(5,721,916)</u>	<u>(1,280,684)</u>
Non-operating revenues(expenses), net	3,441,106	3,870,448	(429,342)	2,673,535	1,196,913
<b>Net loss before capital contributions</b>	<u>(2,123,252)</u>	<u>(3,132,152)</u>	<u>1,008,900</u>	<u>(3,048,381)</u>	<u>(83,771)</u>
Capital contributions	541,662	367,481	174,181	13,548	353,933
<b>Change in net position</b>	<u>(1,581,590)</u>	<u>(2,764,671)</u>	<u>1,183,081</u>	<u>(3,034,833)</u>	<u>4,217,914</u>
Net position:					
<b>Beginning of year</b>	96,645,100	105,637,337	(8,992,237)	108,672,170	(3,034,833)
<b>Prior period adjustment</b>	<u>-</u>	<u>(6,227,566)</u>	<u>6,227,566</u>	<u>-</u>	<u>-</u>
<b>End of year</b>	<u>\$ 95,063,510</u>	<u>\$ 96,645,100</u>	<u>\$ (1,581,590)</u>	<u>\$ 105,637,337</u>	<u>\$ 1,183,081</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position decreased from operations by (\$1,581,590), (\$2,764,671) and \$(3,034,833) for the fiscal years ended December 31, 2016, 2015 and 2014, respectively.

**Palmdale Water District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Years Ended December 31, 2016 and 2015**

**Total Revenues**

	<u>Balance</u> <u>December 31, 2016</u>	<u>Balance</u> <u>December 31, 2015</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Balance</u> <u>December 31, 2014</u>	<u>Increase</u> <u>(Decrease)</u>
<b>Operating revenues:</b>					
Water sales – commodity charge	\$ 8,196,842	\$ 6,952,694	\$ 1,244,148	\$ 8,283,444	\$ (1,330,750)
Water sales – wholesale	229,052	142,749	86,303	218,627	(75,878)
Monthly meter service charge	12,176,890	11,658,904	517,986	11,321,843	337,061
Water quality fees	861,502	898,134	(36,632)	1,564,800	(666,666)
Elevation fees	349,673	369,899	(20,226)	477,654	(107,755)
Other charges for services	<u>772,842</u>	<u>1,226,039</u>	<u>(453,197)</u>	<u>1,475,268</u>	<u>(249,229)</u>
<b>Total operating revenues</b>	<u>22,586,801</u>	<u>21,248,419</u>	<u>1,338,382</u>	<u>23,341,636</u>	<u>(2,093,217)</u>
<b>Non-operating:</b>					
Property taxes – ad valorem	1,665,002	1,634,459	30,543	1,582,069	52,390
Property tax assessment for State Water Project	5,168,663	5,207,003	(38,340)	5,066,642	140,361
Successor agency component of property taxes	524,470	511,352	13,118	415,074	96,278
Rental revenue – cellular towers	120,710	-	120,710	-	-
Investment earnings	42,729	42,705	24	50,469	(7,764)
Change in investment – PRWA	90,756	164,503	(73,747)	(34,580)	199,083
Legal and insurance refunds/settlements	-	198,613	(198,613)	(490,406)	689,019
Department of Water Resources – FCR	285,255	332,957	(47,702)	221,578	111,379
Other non-operating revenues	<u>117,632</u>	<u>88,285</u>	<u>29,347</u>	<u>79,166</u>	<u>9,119</u>
<b>Total non-operating</b>	<u>8,015,217</u>	<u>8,179,877</u>	<u>(164,660)</u>	<u>6,890,012</u>	<u>1,289,865</u>
<b>Total revenues</b>	<u>\$ 30,602,018</u>	<u>\$ 29,428,296</u>	<u>\$ 1,173,722</u>	<u>\$ 30,231,648</u>	<u>\$ (803,352)</u>

In 2016, the District's operating revenues increased by 6.30% or \$1,338,382 from \$21,248,419 to \$22,586,801, from the prior year, primarily due to an increase in water sales – commodity charge of \$1,244,148 and monthly meter service charge of \$517,986. Also, non-operating revenues decreased (\$164,660) from the decrease of legal and insurance refunds/settlements of (\$198,613).

In 2015, the District's operating revenues decreased by (8.97%) or (\$2,093,217) from \$23,341,636 to \$21,248,419, from the prior year, primarily due to a decrease in water sales – commodity charge of (\$1,330,750) due to the California drought crisis that mandates water conservation measures. Also, non-operating revenues increased \$1,289,865 due to variety of increases in various non-operating revenue accounts.

**Palmdale Water District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Years Ended December 31, 2016 and 2015**

**Total Expenses**

	<u>Balance</u> <u>December 31, 2016</u>	<u>Balance</u> <u>December 31, 2015</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Balance</u> <u>December 31, 2014</u>	<u>Increase</u> <u>(Decrease)</u>
<b>Operating expenses:</b>					
Source of supply – water purchases	\$ 2,464,905	\$ 1,643,115	\$ 821,790	\$ 3,164,037	\$ (1,520,922)
Operations and production	3,019,029	2,767,271	251,758	5,875,735	(3,108,464)
Facilities	7,347,469	6,566,049	781,420	4,270,413	2,295,636
Engineering	1,523,294	1,348,743	174,551	1,289,492	59,251
Water conservation	347,909	587,961	(240,052)	361,146	226,815
Administration	4,738,232	4,215,017	523,215	3,794,424	420,593
Finance and customer care	3,263,471	3,191,130	72,341	3,650,150	(459,020)
<b>Operating expenses before overhead absorption</b>	<u>22,704,309</u>	<u>20,319,286</u>	<u>2,385,023</u>	<u>22,405,397</u>	<u>(2,086,111)</u>
Overhead absorption	(152,890)	(26,134)	(126,756)	(508,818)	482,684
<b>Operating expenses before depreciation</b>	<u>22,551,419</u>	<u>20,293,152</u>	<u>2,258,267</u>	<u>21,896,579</u>	<u>(1,603,427)</u>
Depreciation	5,599,740	7,957,867	(2,358,127)	7,166,973	790,894
<b>Total operating expenses</b>	<u>28,151,159</u>	<u>28,251,019</u>	<u>(99,860)</u>	<u>29,063,552</u>	<u>(812,533)</u>
<b>Non-operating expenses:</b>					
State Water Project amortization expense	2,362,788	2,074,524	288,264	1,934,685	139,839
Interest expense – long-term debt	2,211,323	2,234,905	(23,582)	2,281,792	(46,887)
<b>Total non-operating</b>	<u>4,574,111</u>	<u>4,309,429</u>	<u>264,682</u>	<u>4,216,477</u>	<u>92,952</u>
<b>Total expenses</b>	<u>\$ 32,725,270</u>	<u>\$ 32,560,448</u>	<u>\$ 164,822</u>	<u>\$ 33,280,029</u>	<u>\$ (719,581)</u>

In 2016, the District's operating expenses before overhead absorption and depreciation expense increased by 11.74% or \$2,385,023 from \$20,319,286 to \$22,704,309, from the prior year, primarily due to an increase in source of supply – water purchases or \$821,790, facilities expense or \$781,420, and administration or \$523,215. Non-operating expenses increased \$264,682 due to an increase in State Water Project amortization expense of \$288,264.

In 2015, the District's operating expenses before overhead absorption and depreciation expense decreased by (9.31%) or \$2,086,111 from \$22,405,397 to \$20,319,286, from the prior year, primarily due to a decrease in source of supply – water purchases or (\$1,520,922) as a result of the decrease in water sales. Non-operating expenses increased \$92,952 due to an increase in State Water Project amortization expense of \$139,839.

**Palmdale Water District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Years Ended December 31, 2016 and 2015**

---

**Capital Asset Administration**

The District's capital assets are summarized below:

	<b>Balance</b>	<b>Balance</b>	<b>Balance</b>
<b>Capital assets:</b>	<b><u>December 31, 2016</u></b>	<b><u>December 31, 2015</u></b>	<b><u>December 31, 2014</u></b>
Non-depreciable assets	\$ 8,208,610	\$ 7,961,504	\$ 5,114,835
Depreciable assets	295,153,330	288,486,356	281,811,326
Accumulated depreciation	<u>(149,338,029)</u>	<u>(141,501,296)</u>	<u>(133,145,896)</u>
<b>Total capital assets, net</b>	<b><u>\$ 154,023,911</u></b>	<b><u>\$ 154,946,564</u></b>	<b><u>\$ 153,780,265</u></b>

At the end of fiscal years 2016, 2015 and 2014, the District's investment in capital assets amounted to \$154,023,911, \$154,946,564 and \$153,780,265 (net of accumulated depreciation), respectively. Major capital asset additions during the years ended December 31, 2016 and 2015 amounted to \$7,039,875 and \$11,198,689 for various projects and equipment. See Note 5 for further information.

**Debt Administration**

The long-term debt position of the District is summarized below:

	<b>Balance</b>	<b>Balance</b>	<b>Balance</b>
<b>Long-term debt:</b>	<b><u>December 31, 2016</u></b>	<b><u>December 31, 2015</u></b>	<b><u>December 31, 2014</u></b>
Capital lease payable – 2013	\$ 47,286	\$ 231,745	\$ 408,930
Loan payable – 2012	8,577,741	9,660,294	10,708,715
Revenue bonds payable, net – 2013	<u>44,941,937</u>	<u>45,519,066</u>	<u>46,091,194</u>
<b>Total</b>	<b><u>\$ 53,566,964</u></b>	<b><u>\$ 55,411,105</u></b>	<b><u>\$ 57,208,839</u></b>

Structured long-term debt items decreased by (\$1,844,141) and (\$1,797,734) for the fiscal years ended December 31, 2016 and 2015, due to regular principal payments on the District's structured long-term debt items. See Note 7 for further information.

**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.

**Palmdale Water District**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Years Ended December 31, 2016 and 2015**

---

**Economic Conditions**

- The District will continue to be required to enforce mandatory drought restrictions of 28% until conditions change within the state.
- For 2016, the District's board of directors placed a Stage 1 drought surcharge in effect to offset lost revenue related to drought restrictions.
- Billed water consumption for the year ended December 31, 2015 was at 14,781 acre feet compared to 18,048 for the year ended December 31, 2014.
- The District continued to see an uptick in new customer sign-ups for vacant properties brought about by the 2008 recession.
- Property development in the community served by the District is showing signs of recovery.
- The District's assessed valuation has increased to \$1.66 billion for FY 2015/2016 from \$1.57 billion from FY 2014/2015.
- The District received \$1.665 million in ad valorem property tax revenue for 2016.
- The District received \$524 thousand in successor agency component property taxes for 2016.

**Requests for Information**

This financial report is designed to provide the District's ratepayers and creditors with a general 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 Palmdale Water District, Finance Department, at 2029 East Avenue Q, Palmdale, CA 93550 or (661) 947-4111.

*This page intentionally left blank.*

## **BASIC FINANCIAL STATEMENTS**

**Palmdale Water District**  
**Balance Sheets**  
**December 31, 2016 and 2015**

ASSETS	<u>2016</u>	<u>2015</u>
<b>Current assets:</b>		
Cash and cash equivalents (Note 2)	\$ 4,412,202	\$ 7,835,005
Investments (Note 2)	8,441,547	4,408,985
Accrued interest receivable	29,664	9,616
Accounts receivable – water sales and services, net (Note 3)	1,937,314	1,409,262
Accounts receivable – property taxes and assessments	4,750,909	4,858,341
Accounts receivable – other	93,024	462,493
Materials and supplies inventory	910,548	822,866
Prepaid items	713,353	611,257
<b>Total current assets</b>	<u>21,288,561</u>	<u>20,417,825</u>
<b>Non-current assets:</b>		
Restricted – cash and cash equivalents (Note 2)	403,920	1,191,266
Investment in Palmdale Recycled Water Authority (Note 4)	320,679	229,923
Capital assets – not being depreciated (Note 5)	8,208,610	7,961,504
Capital assets – being depreciated, net (Note 5)	145,815,301	146,985,060
<b>Total non-current assets</b>	<u>154,748,510</u>	<u>156,367,753</u>
<b>Total assets</b>	<u>176,037,071</u>	<u>176,785,578</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on debt defeasance, net (Note 7)	2,478,516	2,635,209
Deferred amounts related to net pension liability (Note 9)	2,245,577	1,049,702
<b>Total deferred outflows of resources</b>	<u>4,724,093</u>	<u>3,684,911</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 180,761,164</u>	<u>\$ 180,470,489</u>

**Palmdale Water District  
Balance Sheets (Continued)  
December 31, 2016 and 2015**

<b>LIABILITIES</b>	<b>2016</b>	<b>2015</b>
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 815,553	\$ 535,180
Customer deposits for water service	2,968,372	3,040,524
Construction and developer deposits	1,626,017	1,553,617
Accrued interest payable	530,522	542,424
Long-term liabilities – due within one year:		
Compensated absences (Note 6)	329,375	318,368
Capital lease payable (Note 7)	47,286	184,459
Loan payable (Note 7)	1,115,453	1,082,553
Revenue bonds payable (Note 7)	495,000	475,000
<b>Total current liabilities</b>	<b>7,927,578</b>	<b>7,732,125</b>
<b>Non-current liabilities:</b>		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 6)	109,793	106,123
Capital lease payable (Note 7)	-	47,286
Loan payable (Note 7)	7,462,288	8,577,741
Revenue bonds payable, net (Note 7)	44,446,937	45,044,066
Net other post-employment benefits obligation (Note 8)	13,107,674	11,235,300
Net pension liability (Note 9)	7,779,823	5,743,143
Pension-related debt – CalPERS side-fund (Note 9)	905,666	984,765
<b>Total non-current liabilities</b>	<b>73,812,181</b>	<b>71,738,424</b>
<b>Total liabilities</b>	<b>81,739,759</b>	<b>79,470,549</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unearned property taxes and assessments	3,500,000	3,550,000
Deferred amounts related to net pension liability (Note 9)	457,895	804,840
<b>Total deferred inflows of resources</b>	<b>3,957,895</b>	<b>4,354,840</b>
<b>NET POSITION</b>		
Net investment in capital assets (Note 10)	103,339,383	103,361,934
Restricted – Palmdale Recycled Water Authority (Note 4)	320,679	229,923
Unrestricted (Deficit) (Note 11)	(8,596,552)	(6,946,757)
<b>Total net position</b>	<b>95,063,510</b>	<b>96,645,100</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 180,761,164</b>	<b>\$ 180,470,489</b>

**Palmdale Water District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating revenues:</b>		
Water sales – commodity charge	\$ 8,196,842	\$ 6,952,694
Water sales – wholesale	229,052	142,749
Monthly meter service charge	12,176,890	11,658,904
Water quality fees	861,502	898,134
Elevation fees	349,673	369,899
Other charges for services	772,842	1,226,039
<b>Total operating revenues</b>	<u>22,586,801</u>	<u>21,248,419</u>
<b>Operating expenses:</b>		
Source of supply – water purchases	2,464,905	1,643,115
Operations and production	3,019,029	2,767,271
Facilities	7,347,469	6,566,049
Engineering	1,523,294	1,348,743
Water conservation	347,909	587,961
Administration	4,738,232	4,215,017
Finance and customer care	3,263,471	3,191,130
<b>Total operating expenses</b>	<u>22,704,309</u>	<u>20,319,286</u>
<b>Operating income(loss) before overhead absorption</b>	(117,508)	929,133
Overhead absorption	152,890	26,134
<b>Operating income before depreciation expense</b>	35,382	955,267
Depreciation expense	(5,599,740)	(7,957,867)
<b>Operating (loss)</b>	<u>(5,564,358)</u>	<u>(7,002,600)</u>
<b>Non-operating revenues(expenses):</b>		
Property taxes – ad valorem	1,665,002	1,634,459
Property tax assessment for State Water Project	5,168,663	5,207,003
Successor agency component of property taxes	524,470	511,352
Rental revenue – cellular towers	120,710	-
Investment earnings	42,729	42,705
Changes in investment – Palmdale Recycled Water Authority (Note 4)	90,756	164,503
Legal and insurance refunds/settlements	-	198,613
Department of Water Resources – fixed charge recovery	285,255	332,957
Other non-operating revenues	117,632	88,285
State Water Project amortization expense	(2,362,788)	(2,074,524)
Interest expense – long-term debt	(2,211,323)	(2,234,905)
<b>Total non-operating revenue(expense), net</b>	<u>3,441,106</u>	<u>3,870,448</u>
<b>Net (loss) before capital contributions</b>	<u>(2,123,252)</u>	<u>(3,132,152)</u>
<b>Capital contributions:</b>		
Capital improvement fees	234,747	367,481
Federal and state capital grants	306,915	-
<b>Total capital contributions</b>	<u>541,662</u>	<u>367,481</u>
<b>Change in net position</b>	(1,581,590)	(2,764,671)
<b>Net position:</b>		
Beginning of year, as previously reported	96,645,100	105,637,337
Prior period adjustment (Note 12)	-	(6,227,566)
End of year	<u>\$ 95,063,510</u>	<u>\$ 96,645,100</u>

See Accompanying Notes to the Basic Financial Statements.

**Palmdale Water District**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Cash receipts from water sales and services	\$ 22,058,997	\$ 20,980,644
Cash receipts from others	893,066	619,855
Cash paid to employees for salaries and wages	(7,245,721)	(7,206,856)
Cash paid to vendors and suppliers for materials and services	(13,066,181)	(11,160,148)
<b>Net cash provided by operating activities</b>	<b>2,640,161</b>	<b>3,233,495</b>
<b>Cash flows from non-capital financing activities:</b>		
Proceeds from property taxes	2,246,904	1,937,571
Proceeds from property tax assessment for State Water Project	5,168,663	5,207,003
Acquisition of State Water Project participation rights	(4,649,693)	(4,575,111)
<b>Net cash provided by non-capital financing activities</b>	<b>2,765,874</b>	<b>2,569,463</b>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(2,390,182)	(6,623,579)
Proceeds from capital improvement fees and capital grants	541,662	367,481
Principal paid on long-term debt	(1,742,012)	(1,695,606)
Interest paid on long-term debt	(2,078,530)	(1,852,406)
<b>Net cash (used in) capital and related financing activities</b>	<b>(5,669,062)</b>	<b>(9,804,110)</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments, net	(4,032,562)	(647,071)
Investment earnings	85,440	43,573
<b>Net cash (used in) investing activities</b>	<b>(3,947,122)</b>	<b>(603,498)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(4,210,149)</b>	<b>(4,604,650)</b>
<b>Cash and cash equivalents:</b>		
Beginning of year	9,026,271	13,630,921
End of year	<b>\$ 4,816,122</b>	<b>\$ 9,026,271</b>
<b>Reconciliation of cash and cash equivalents to the statement of net position:</b>		
Cash and cash equivalents	\$ 4,412,202	\$ 7,835,005
Restricted assets – cash and cash equivalents	403,920	1,191,266
<b>Total cash and cash equivalents</b>	<b>\$ 4,816,122</b>	<b>\$ 9,026,271</b>

**Palmdale Water District**  
**Statements of Cash Flows (Continued)**  
**For the Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Reconciliation of operating (loss) to net cash provided by operating activities:</b>		
Operating (loss)	\$ (5,564,358)	\$ (7,002,600)
<b>Adjustments to reconcile operating (loss) to net cash provided by operating activities:</b>		
Depreciation	5,599,740	7,957,867
Overhead absorption	(152,890)	(26,134)
Rental revenue – cellular towers	120,710	-
Legal and insurance refunds/settlements	-	198,613
Department of Water Resources – fixed charge recovery	285,255	332,957
Other non-operating revenues	117,632	88,285
<b>Change in assets – (increase)decrease:</b>		
Accounts receivable – water sales and services, net	(528,052)	166,749
Accounts receivable – other	369,469	(461,987)
Materials and supplies inventory	(87,682)	749,832
Prepaid items	(102,096)	143,683
<b>Change in deferred outflows of resources – (increase)decrease</b>		
Deferred amounts related to net pension liability	(1,195,875)	(220,393)
<b>Change in liabilities – increase(decrease):</b>		
Accounts payable and accrued expenses	280,373	(240,222)
Customer deposits for water service	(72,152)	177,457
Construction and developer deposits	72,400	(149,994)
Compensated absences	14,677	60,154
Net other post-employment benefits obligation	1,872,374	1,902,438
Net pension liability	2,036,680	534,559
Pension-related debt – CalPERS side-fund	(79,099)	(69,437)
<b>Change in deferred inflows of resources – increase(decrease)</b>		
Deferred amounts related to net pension liability	(346,945)	(908,332)
<b>Total adjustments</b>	<u>8,204,519</u>	<u>10,236,095</u>
<b>Net cash provided by operating activities</b>	<u>\$ 2,640,161</u>	<u>\$ 3,233,495</u>
<b>Non-cash investing, capital and financing transactions:</b>		
Change in fair-value of investments	<u>\$ (62,759)</u>	<u>\$ (3,081)</u>
Amortization of deferred loss on debt defeasance	<u>\$ (156,693)</u>	<u>\$ (156,692)</u>
Amortization of net premium(discount) on revenue bonds	<u>\$ 102,129</u>	<u>\$ 102,128</u>
Changes in investment – Palmdale Recycled Water Authority	<u>\$ 90,756</u>	<u>\$ 164,503</u>

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

*This page intentionally left blank.*

**Palmdale Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended December 31, 2016 and 2015**

---

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies**

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

The Palmdale Water District Public Facilities Corporation (Corporation) was organized on August 22, 1991 pursuant to the Nonprofit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code), solely for the purpose of acquiring and or constructing various public facilities and providing financial assistance to the District. Accordingly, this component unit is included within the financial statements of the District.

***Basis of Presentation***

Financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (GASB) commonly referred to as accounting principles generally accepted in the United States of America (U.S. GAAP). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

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

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

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended December 31, 2016 and 2015**

---

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

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)***

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

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

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

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

***Accounting Changes***

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflow of resources, deferred inflows of resources, and expense/expenditures for pension plans. This Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement became effective for periods beginning after June 15, 2014. See Note 12 for prior period adjustment as a result of implementation.

GASB has issued Statement No. 69, *Government Combinations and Disposals of Government Operation*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement became effective for periods beginning after December 15, 2013 and did not have a significant impact on the District's financial statements for year ended December 31, 2015.

GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This statement establishes standards relating to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement became effective for periods beginning after June 15, 2014. See Note 12 for prior period adjustment as a result of implementation.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

---

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

***Accounting Changes (Continued)***

Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosure related to all fair value measurements. Application of this statement is effective for fiscal year ending June 30, 2016 and did not have a significant impact on the District's financial statements for year ended December 31, 2016.

Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by GASB Statements 67 and 68). Application of this statement is effective for District's fiscal year ending June 30, 2016, except those provisions that address employers and governmental non-employer contributing entities that are not within the scope of GASB Statement 68, which are effective for financial statements for fiscal year ending June 30, 2017 and did not have a significant impact on the District's financial statements for year ended December 31, 2016.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. Application of this statement is effective for fiscal year ending June 30, 2016 and did not have a significant impact on the District's financial statements for year ended December 31, 2016.

***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.

***Investment Policy***

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

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the balance sheet, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

---

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

***Restricted Assets***

Restricted assets are cash and cash equivalents and investments whose use is limited by legal and debt covenant requirements such as debt payment, reserve balance maintenance and developer impact fees.

***Receivables 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.

***Property Taxes***

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.

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

***Materials and Supplies Inventory***

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

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond the fiscal year ended are recorded as prepaid items.

***Capital Assets***

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. The District policy has set the capitalization threshold for reporting capital assets at \$5,000, all of which must have an estimated useful life in excess of three years. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings, wells and distribution system	50 years
General plant	40 years
Machinery and equipment	3 to 20 years

Major outlays for capital assets are capitalized as construction in progress, once constructed, and repairs and maintenance costs are expensed.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

---

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

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

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

***Customer Deposits for Water Service***

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

***Compensated Absences***

The District's personnel policies provide for accumulation of vacation leave and compensatory time off. Liabilities for vacation leave and compensatory time off are recorded when benefits are earned. Full cash payment for all unused vacation leave is available to employees upon retirement or termination. Although accrued and unused sick leave may be carried over to, and used during, subsequent years, as discussed above, sick pay does not vest which means no payment shall be made for unused sick leave on termination of employment.

***Pensions***

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net pension of the District’s pension plans and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

<u>CalPERS</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Valuation date	June 30, 2015	June 30, 2014
Measurement date	June 30, 2016	June 30, 2015
Measurement period	July 1, 2015 to June 30, 2016	July 1, 2014 to June 30, 2015

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retirees) as of the beginning of the measurement period.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

---

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

***Net Position***

Net position represents the difference between all other elements in the statement of net position and should be displayed in the following three components:

***Net Investment in Capital Assets*** – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

***Restricted*** – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

***Unrestricted*** – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

***Water Sales***

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

***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.

***Use of Estimates***

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

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 2 – Cash and Investments**

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

<u>Description</u>	<u>Balance December 31, 2016</u>	<u>Balance December 31, 2015</u>
Cash and cash equivalents	\$ 4,412,202	\$ 7,835,005
Investments	8,441,547	4,408,985
Restricted – cash and cash equivalents	403,920	1,191,266
Total	<u>\$ 13,257,669</u>	<u>\$ 13,435,256</u>

Cash and investments consisted of the following:

<u>Description</u>	<u>Balance December 31, 2016</u>	<u>Balance December 31, 2015</u>
Cash on hand	5,700	5,700
Demand deposits held with financial institutions	438,359	780,564
Investments	12,813,610	12,648,992
Total	<u>\$ 13,257,669</u>	<u>\$ 13,435,256</u>

***Demand Deposits***

At December 31, 2016 and 2015, the carrying amounts of the District's demand deposits were \$438,359 and \$780,564, respectively, and the financial institution's balances were \$831,810 and \$1,019,893, respectively. The \$393,451 and \$239,329 respective net differences represent outstanding checks, deposits-in-transit and/or other reconciling items as of December 31, 2016 and 2015.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of, the local government.

***Custodial Credit Risk***

The 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 deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's investment policy requires that collateral be held by an independent third party with whom the District has a current custodial agreement.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

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

***Custodial Credit Risk***

The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District’s investment policy requires that all security transactions are conducted on a delivery-versus-payment (DVP) method and that all securities are held by a qualified, third-party custodian, as evidenced by safekeeping receipts. The trust department of the District’s bank may act as third-party custodian, provided that the custodian agreement is separate from the banking agreement. 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).

As of December 31, 2016 and 2015 none of the District’s deposits or investments were exposed to disclosable custodial credit risk.

***Investments***

Investments for the year ended December 31, 2016 were as follows:

Type of Investments	Measurement Input	Credit Rating	Fair Value	Maturity		
				12 Months or Less	13 to 24 Months	25 to 60 Months
U.S. Treasury notes	Level 1	AAA	\$ 4,538,805	\$ 1,000,670	\$ 1,000,980	\$ 2,537,155
Local Agency Investment Fund (LAIF)	Level 2	Exempt	11,824	11,824	-	-
Money market mutual funds	Level 2	Not Rated	4,372,063	4,372,063	-	-
Negotiable certificates-of-deposit	Level 2	Not Rated	3,890,918	1,964,900	964,700	961,318
<b>Total investments</b>			<b>\$ 12,813,610</b>	<b>\$ 7,349,457</b>	<b>\$ 1,965,680</b>	<b>\$ 3,498,473</b>

Investments for the year ended December 31, 2015 were as follows:

Type of Investments	Measurement Input	Credit Rating	Fair Value	Maturity		
				12 Months or Less	13 to 24 Months	25 to 60 Months
Government sponsored agency securities:						
Federal Farm Credit Bank bond	Level 2	AA+	\$ 999,840	\$ 999,840	\$ -	\$ -
Local Agency Investment Fund (LAIF)	Level 2	Exempt	11,766	11,766	-	-
Money market mutual funds	Level 2	Not Rated	8,240,007	8,240,007	-	-
Negotiable certificates-of-deposit	Level 2	Not Rated	3,397,379	1,719,938	961,425	716,016
<b>Total investments</b>			<b>\$ 12,648,992</b>	<b>\$ 10,971,551</b>	<b>\$ 961,425</b>	<b>\$ 716,016</b>

***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.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

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

***Investments Authorized by the California Government Code and the District’s Investment Policy (Continued)***

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage of Portfolio</b>	<b>Maximum Investment in One Issuer</b>
U.S. treasury obligations	5-years	None	None
District issued bonds	5-years	None	None
Government sponsored agency securities	5-years	None	None
Negotiable certificates-of-deposit	5-years	35%	None
Money market mutual funds	N/A	None	None
California 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.

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

***Investment in State Investment Pool – Local Agency Investment Fund (LAIF)***

The District is a voluntary participant in LAIF which is regulated by California Government Code Section 16429 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.

The District’s investments with LAIF at December 31, 2016 and 2015 included a portion of the pool funds invested in structured notes and asset-backed securities:

***Structured Notes:*** debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

***Asset-Backed Securities:*** generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of December 31, 2016 and 2015, the District had \$11,824 and \$11,766, respectively, invested in LAIF, which had invested 2.66% and 2.08%, respectively, of the pool investment funds in structured notes and medium-term asset-backed securities. The LAIF fair value factor of 0.999423823 and 1.000375979, respectively, was used to calculate the fair value of the investments in LAIF as of December 31, 2016 and 2015.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

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

***Fair Value Measurement Input***

The District categorizes its fair value measurement inputs within the fair value hierarchy established by generally accepted accounting principles. The District has presented its measurement inputs as noted in the tables above.

***Credit Risk***

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. As of December 31, 2016 and 2015, the District's investments were rated in the tables above.

***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 fair values of investments with longer maturities have greater sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The District has elected to use the segmented time distribution method of disclosure for the maturities of its investments as related to interest rate risk as noted in the tables above.

***Concentration of Credit Risk***

The District's investment policy contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer beyond that stipulated by the California Government Code. The following is a list of the District's investments in a governmental issuer that is 5% or more of the District's total investments except for those in LAIF and money market mutual funds:

Investments as of December 31, 2016 were as follows:

<u>Investments with Maturity Dates</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
U.S. Treasury note – February 28, 2017	\$ 1,000,670	7.55%
U.S. Treasury note – June 15, 2018	1,000,980	7.55%
U.S. Treasury note – February 15, 2019	1,547,115	11.67%
U.S. Treasury note – February 15, 2019	990,040	7.47%
<b>Total</b>	<b>\$ 4,538,805</b>	<b>34.24%</b>

Investments as of December 31, 2015 were as follows:

<u>Investments with Maturity Dates</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Government sponsored agency securities: Federal Farm Credit Bank bond – June 2, 2016	\$ 999,840	7.44%

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

---

**Note 3 – Accounts Receivable – Water Sales and Services, Net**

The balances consisted of the following:

Description	Balance December 31, 2016	Balance December 31, 2015
Accounts receivable – water sales and services	\$ 2,093,125	\$ 1,605,375
Allowance for doubtful accounts	(155,811)	(196,113)
Accounts receivable – water sales and services, net	\$ 1,937,314	\$ 1,409,262

**Note 4 – Investment in Palmdale Recycled Water Authority**

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

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

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

The Members share in the revenues and expenses of the Authority on a 50/50 pro-rata share basis. Therefore, the District accounts for its investment in the Authority as an equity interest on the statement of net position. The District reports its equity interest as of the date of the most recent audited financial statements of the Authority as of December 31, 2016 and 2015, which was audited by other auditors, whose report dated April 15, 2017 and April 18, 2016, respectively, expressed an unmodified opinion on those financial statements.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 4 – Investment in Palmdale Recycled Water Authority (Continued)**

The following is the condensed financial statement of the Authority for the year ended December 31, 2016:

<b>Palmdale Recycled Water Authority</b>			
<b>Condensed Statement of Net Position</b>			
<b>December 31, 2016</b>			
	<b>Audited Total</b>	<b>City of Palmdale 50% Share</b>	<b>District 50% Share</b>
<b>Assets:</b>			
Total assets	\$ 720,959	\$ 360,480	\$ 360,479
<b>Liabilities:</b>			
Total liabilities	79,600	39,800	39,800
<b>Net position:</b>			
Total net position	641,359	320,680	320,679
Total liabilities and net position	\$ 720,959	\$ 360,480	\$ 360,479

<b>Palmdale Recycled Water Authority</b>			
<b>Condensed Statement of Revenues, Expenses and Changes in Net Position</b>			
<b>For the Year Ended December 31, 2016</b>			
	<b>Audited Total</b>	<b>City of Palmdale 50% Share</b>	<b>District 50% Share</b>
<b>Operating revenues:</b>			
Total operating revenues	\$ 310,777	\$ 155,389	\$ 155,388
<b>Operating expenses:</b>			
Total operating expenses	130,316	65,158	65,158
Operating income	180,461	90,231	90,230
<b>Non-operating revenues:</b>			
Total non-operating revenue	1,051	525	526
Change in net position	181,512	90,756	90,756
<b>Net position:</b>			
Beginning of year	459,847	229,924	229,923
End of year	\$ 641,359	\$ 320,680	\$ 320,679

<b>Palmdale Recycled Water Authority</b>			
<b>Condensed Statement of Cash Flows</b>			
<b>For the Year Ended December 31, 2016</b>			
	<b>Audited Total</b>	<b>City of Palmdale 50% Share</b>	<b>District 50% Share</b>
<b>Cash flows from operating activities:</b>			
Net cash provided by operating activities	\$ 225,706	\$ 112,853	\$ 112,853
<b>Cash flows from investing activities:</b>			
Net cash provided by investing activities	1,051	525	526
Net increase in cash and cash equivalents	226,757	113,378	113,379
<b>Cash and cash equivalents:</b>			
Beginning of year	490,783	277,683	277,682
End of year	\$ 717,540	\$ 391,061	\$ 391,061
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 180,461	\$ 90,231	\$ 90,230
Change in assets	32,070	16,035	16,035
Change in liabilities	13,175	6,587	6,588
Net cash provided by operating activities	\$ 225,706	\$ 112,853	\$ 112,853

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 4 – Investment in Palmdale Recycled Water Authority (Continued)**

The following is the condensed financial statement of the Authority for the year ended December 31, 2015:

**Palmdale Recycled Water Authority**  
**Condensed Statement of Financial Position**  
**December 31, 2015**

	<b>Audited Total</b>	<b>City of Palmdale 50% Share</b>	<b>District 50% Share</b>
<b>Assets:</b>			
Total assets	\$ 526,273	\$ 263,137	\$ 263,136
<b>Liabilities:</b>			
Total liabilities	66,426	33,213	33,213
<b>Net position:</b>			
Total net position	459,847	229,924	229,923
Total liabilities and net position	\$ 526,273	\$ 263,137	\$ 263,136

**Palmdale Recycled Water Authority**  
**Condensed Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended December 31, 2015**

	<b>Audited Total</b>	<b>City of Palmdale 50% Share</b>	<b>District 50% Share</b>
<b>Operating revenues:</b>			
Total operating revenues	\$ 313,718	\$ 156,859	\$ 156,859
<b>Operating expenses:</b>			
Total operating expenses	108,916	54,458	54,458
Operating income	204,802	102,401	102,401
<b>Non-operating revenues:</b>			
Total non-operating revenue	469	235	234
Change in net position	205,271	102,636	102,635
<b>Net position:</b>			
Beginning of year	254,576	127,288	127,288
End of year	\$ 459,847	\$ 229,924	\$ 229,923

**Palmdale Recycled Water Authority**  
**Condensed Statement of Cash Flows**  
**For the Year Ended December 31, 2015**

	<b>Audited Total</b>	<b>City of Palmdale 50% Share</b>	<b>District 50% Share</b>
<b>Cash flows from operating activities:</b>			
Net cash provided by operating activities	\$ 425,732	\$ 212,866	\$ 212,866
<b>Cash flows from investing activities:</b>			
Net cash provided by investing activities	469	235	234
Net increase in cash and cash equivalents	426,201	213,101	213,100
<b>Cash and cash equivalents:</b>			
Beginning of year	64,582	64,582	64,582
End of year	\$ 490,783	\$ 277,683	\$ 277,682
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 204,802	\$ 102,401	\$ 102,401
Change in assets	196,135	98,068	98,067
Change in liabilities	24,795	12,397	12,398
Net cash provided by operating activities	\$ 425,732	\$ 212,866	\$ 212,866

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 5 – Capital Assets**

Summary changes in capital asset balances for the year ended December 31, 2016 were as follows:

Description	Balance January 1, 2016	Additions	Deletions/ Transfers	Balance December 31, 2016
<b>Non-depreciable assets:</b>				
Land and land rights	\$ 1,784,357	\$ -	\$ -	\$ 1,784,357
Construction-in-process	6,177,147	2,339,995	(2,092,889)	6,424,253
<b>Total non-depreciable assets</b>	<b>7,961,504</b>	<b>2,339,995</b>	<b>(2,092,889)</b>	<b>8,208,610</b>
<b>Depreciable assets:</b>				
Buildings, wells and distribution system	210,967,182	1,970,612	-	212,937,794
SWP – participation rights	66,834,973	4,649,693	-	71,484,666
Machinery and equipment	10,684,201	172,464	(125,795)	10,730,870
<b>Total depreciable assets</b>	<b>288,486,356</b>	<b>6,792,769</b>	<b>(125,795)</b>	<b>295,153,330</b>
<b>Accumulated depreciation:</b>				
Buildings, wells and distribution system	(107,639,534)	(5,187,396)	-	(112,826,930)
SWP – participation rights	(24,155,501)	(2,362,788)	-	(26,518,289)
Machinery and equipment	(9,706,261)	(412,344)	125,795	(9,992,810)
<b>Total accumulated depreciation</b>	<b>(141,501,296)</b>	<b>(7,962,528)</b>	<b>125,795</b>	<b>(149,338,029)</b>
<b>Total depreciable assets, net</b>	<b>146,985,060</b>	<b>(1,169,759)</b>	<b>-</b>	<b>145,815,301</b>
<b>Total capital assets, net</b>	<b>\$ 154,946,564</b>	<b>\$ 1,170,236</b>	<b>\$ (2,092,889)</b>	<b>\$ 154,023,911</b>

Summary changes in capital asset balances for the year ended December 31, 2015 were as follows:

Description	Balance January 1, 2015	Additions	Deletions/ Transfers	Balance December 31, 2015
<b>Non-depreciable assets:</b>				
Land and land rights	\$ 1,784,357	\$ -	\$ -	\$ 1,784,357
Construction-in-process	3,330,478	4,838,263	(1,991,594)	6,177,147
<b>Total non-depreciable assets</b>	<b>5,114,835</b>	<b>4,838,263</b>	<b>(1,991,594)</b>	<b>7,961,504</b>
<b>Depreciable assets:</b>				
Buildings, wells and distribution system	208,975,588	1,524,170	467,424	210,967,182
SWP – participation rights	62,259,862	4,575,111	-	66,834,973
Machinery and equipment	10,575,876	261,146	(152,821)	10,684,201
<b>Total depreciable assets</b>	<b>281,811,326</b>	<b>6,360,427</b>	<b>314,603</b>	<b>288,486,356</b>
<b>Accumulated depreciation:</b>				
Buildings, wells and distribution system	(102,046,641)	(7,117,063)	1,524,170	(107,639,534)
SWP – participation rights	(22,080,977)	(2,074,524)	-	(24,155,501)
Machinery and equipment	(9,018,278)	(840,804)	152,821	(9,706,261)
<b>Total accumulated depreciation</b>	<b>(133,145,896)</b>	<b>(10,032,391)</b>	<b>1,676,991</b>	<b>(141,501,296)</b>
<b>Total depreciable assets, net</b>	<b>148,665,430</b>	<b>(3,671,964)</b>	<b>1,991,594</b>	<b>146,985,060</b>
<b>Total capital assets, net</b>	<b>\$ 153,780,265</b>	<b>\$ 1,166,299</b>	<b>\$ -</b>	<b>\$ 154,946,564</b>

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 5 – Capital Assets (Continued)**

***Construction-in-Process***

The balance consists of the following projects:

<u>Project Description</u>	<u>Balance January 1, 2015</u>	<u>Balance December 31, 2015</u>	<u>Balance December 31, 2016</u>
Sediment removal - Littlerock Dam	\$ 1,395,256	\$ 1,615,733	\$ 1,807,482
Palmdale Regional Groundwater Recharge Project	622,707	1,728,372	2,274,315
10th Street E. waterline replacement	802,533	-	-
Frontier/31st/32nd waterline replacement	255,459	1,615,167	-
Tierra Subida Ave. waterline replacement	3,490	314,929	447,920
Replacement Salt Silos - various sites	-	136,727	-
Armagosa Creek project	38,402	93,380	129,215
El Camino Dr. - mainline replacement	-	16,324	385,798
Well 15 - inspection and replacement	-	18,389	197,014
Various other minor projects <\$100,000	212,631	638,126	1,182,509
Total construction-in-process	<u>\$ 3,330,478</u>	<u>\$ 6,177,147</u>	<u>\$ 6,424,253</u>

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

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

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

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

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 5 – Capital Assets (Continued)**

**State Water Project – Participation Rights (Continued)**

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

**Note 6 – Compensated Absences**

Summary changes to compensated absences balances for the year ended December 31, 2016, were as follows:

<u>Balance</u> <u>January 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31, 2016</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in More</u> <u>Than One Year</u>
\$ 424,491	\$ 533,037	\$ (518,360)	\$ 439,168	\$ 329,375	\$ 109,793

Summary changes to compensated absences balances for the year ended December 31, 2015, were as follows:

<u>Balance</u> <u>January 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31, 2015</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in More</u> <u>Than One Year</u>
\$ 364,337	\$ 509,675	\$ (449,521)	\$ 424,491	\$ 318,368	\$ 106,123

**Note 7 – Long-Term Debt**

The District has incurred long-term debt to finance projects or purchase assets, which have useful lives equal to or greater than the related debt.

Changes in long-term debt amounts for the year ended December 31, 2016 were as follows:

<u>Long-Term Debt</u>	<u>Balance</u> <u>January 1, 2016</u>	<u>Additions/ Adjustments</u>	<u>Payments/ Amortization</u>	<u>Balance</u> <u>December 31, 2016</u>	<u>Current</u> <u>Portion</u>	<u>Non-Current</u> <u>Portion</u>
Capital lease payable – 2013	\$ 231,745	\$ -	\$ (184,459)	\$ 47,286	\$ 47,286	\$ -
Loan payable – 2012	9,660,294	-	(1,082,553)	8,577,741	1,115,453	7,462,288
Revenue bonds payable – 2013	42,685,000	-	(475,000)	42,210,000	495,000	41,715,000
Revenue bonds payable – discount	(119,346)	-	4,301	(115,045)	-	(115,045)
Revenue bonds payable – premium	2,953,412	-	(106,430)	2,846,982	-	2,846,982
Revenue bonds payable, net – 2013	45,519,066	-	(577,129)	44,941,937	495,000	44,446,937
Total long-term debt	\$ 55,411,105	\$ -	\$ (1,844,141)	\$ 53,566,964	\$ 1,657,739	\$ 51,909,225

Changes in long-term debt amounts for the year ended December 31, 2015 were as follows:

<u>Long-Term Debt</u>	<u>Balance</u> <u>January 1, 2015</u>	<u>Additions/ Adjustments</u>	<u>Payments/ Amortization</u>	<u>Balance</u> <u>December 31, 2015</u>	<u>Current</u> <u>Portion</u>	<u>Non-Current</u> <u>Portion</u>
Capital lease payable – 2013	\$ 408,930	\$ -	\$ (177,185)	\$ 231,745	\$ 184,459	\$ 47,286
Loan payable – 2012	10,708,715	-	(1,048,421)	9,660,294	1,082,553	8,577,741
Revenue bonds payable – 2013	43,155,000	-	(470,000)	42,685,000	475,000	42,210,000
Revenue bonds payable – discount	(123,647)	-	4,301	(119,346)	-	(119,346)
Revenue bonds payable – premium	3,059,841	-	(106,429)	2,953,412	-	2,953,412
Revenue bonds payable, net – 2013	46,091,194	-	(572,128)	45,519,066	475,000	45,044,066
Total long-term debt	\$ 57,208,839	\$ -	\$ (1,797,734)	\$ 55,411,105	\$ 1,742,012	\$ 53,669,093

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 7 – Long-Term Debt (Continued)**

***Capital Lease Payable – 2013***

The District has leased \$863,876 in equipment under a capital lease agreement, upon which the District will take ownership of the equipment at the end of the lease-term. Capital lease payments of \$15,868 are due on a monthly-basis from April 2013 to March 2017 at an annual interest rate of 4.030%.

Annual debt service requirements for the capital lease payable are as follows:

Year	Principal	Interest	Total
2017	\$ 47,286	\$ 318	\$ 47,604

***Loan Payable – 2012***

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

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

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

Annual debt service requirements for the refunding certificates of participation are as follows:

Year	Principal	Interest	Total
2017	\$ 1,115,453	\$ 257,332	\$ 1,372,785
2018	1,147,084	222,509	1,369,593
2019	1,186,595	186,646	1,373,241
2020	1,224,583	149,569	1,374,152
2021	1,261,008	111,327	1,372,335
2022-2023	2,643,018	103,229	2,746,247
Total	8,577,741	\$ 1,030,612	\$ 9,608,353
Less: current	(1,115,453)		
Total non-current	\$ 7,462,288		

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 7 – Long-Term Debt (Continued)**

***Certificates of Participation – 2004***

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

***Revenue Bonds Payable – 2013***

The Palmdale Water District Public Facilities Corporation (Corporation) issued \$44,350,000 in Revenue Bonds Payable – 2013 (Bonds – 2013) with maturities from 2013 through 2043 with an interest rate range between 2.00% to 5.00% pursuant to an Indenture of Trust, dated as of May 1, 2013, by and between the Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee. The Bonds – 2013 are being issued: (i) to prepay the District’s outstanding Certificates of Participation – 2004, (ii) to finance certain improvements to the District’s Water System; (iii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the Bonds – 2013; (iv) to purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund; and (v) to pay the costs of issuing the Bonds – 2013. The refunding resulted in a premium on the issuance of \$3,228,354 and a discount of (\$130,456) which are being amortized over the remaining debt service years. Principal and interest payments are due in April and October each year.

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 495,000	\$ 1,855,975	\$ 2,350,975
2018	510,000	1,841,125	2,351,125
2019	520,000	1,825,825	2,345,825
2020	535,000	1,810,225	2,345,225
2021	565,000	1,783,475	2,348,475
2022-2026	7,895,000	8,358,625	16,253,625
2027-2031	13,350,000	5,914,600	19,264,600
2032-2036	11,225,000	2,697,550	13,922,550
2037-2041	4,880,000	1,048,200	5,928,200
2042-2043	2,235,000	135,000	2,370,000
Total	42,210,000	\$ 27,270,600	\$ 74,175,450
Less: current	(495,000)		
Total non-current	\$ 41,715,000		

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

---

**Note 7 – Long-Term Debt (Continued)**

***Deferred Loss on Debt Defeasance, Net***

Changes in the deferred loss on long-term debt defeasance, net for the year ended December 31, 2016 was as follows:

<u>Balance</u> <u>January 1, 2016</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>December 31, 2016</u>
\$ 2,635,209	\$ -	\$ (156,693)	\$ 2,478,516

Changes in the deferred loss on long-term debt defeasance, net for the year ended December 31, 2015 was as follows:

<u>Balance</u> <u>January 1, 2015</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>December 31, 2015</u>
\$ 2,791,901	\$ -	\$ (156,692)	\$ 2,635,209

**Note 8 – Net Other Post-Employment Benefits Obligation**

***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).

***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 contributes 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 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.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 8 – Net Other Post-Employment Benefits Obligation (Continued)**

*Annual Cost*

Description	2016	2015	2014
<b>Annual OPEB cost:</b>			
Annual required contribution (ARC)	\$ 2,350,322	\$ 2,350,322	\$ 2,306,498
Interest on net OPEB obligation	224,706	186,657	149,593
Adjustment to annual required contribution	<u>(380,234)</u>	<u>(315,847)</u>	<u>(253,131)</u>
<b>Total annual OPEB cost</b>	<u>2,194,794</u>	<u>2,221,132</u>	<u>2,202,960</u>
<b>Contributions made</b>	<u>(322,420)</u>	<u>(318,694)</u>	<u>(349,723)</u>
<b>Total contributions made</b>	<u>(322,420)</u>	<u>(318,694)</u>	<u>(349,723)</u>
<b>Total change in net OPEB obligation</b>	1,872,374	1,902,438	1,853,237
<b>Net OPEB obligation:</b>			
Beginning of year	<u>11,235,300</u>	<u>9,332,862</u>	<u>7,479,625</u>
End of year	<u>\$ 13,107,674</u>	<u>\$ 11,235,300</u>	<u>\$ 9,332,862</u>

For the years ended December 31, 2016 and 2015, the District's ARC cost was \$2,194,794 and \$2,221,132. The District's net OPEB payable obligation amounted to \$13,107,674 and \$11,235,300, respectively, for the years ended December 31, 2016 and 2015. The District contributed \$322,420 and \$318,694, respectively, in contributions for current retiree OPEB premiums for the years ended December 31, 2016 and 2015.

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

<i>Three-Year History of Net OPEB Obligation(Asset)</i>				
Fiscal Year Ended	Annual OPEB Cost	Contributions Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable(Asset)
December 31, 2016	\$ 2,194,794	\$ 322,420	14.69%	\$ 13,107,674
December 31, 2015	\$ 2,221,132	\$ 318,694	14.35%	\$ 11,235,300
December 31, 2014	\$ 2,202,960	\$ 349,723	15.88%	\$ 9,332,862

***Funded Status and Funding Progress of the Plan***

The most recent valuation (dated December 31, 2014) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$25,778,850. There are no plan assets because the District funds on a pay-as-you-go basis and maintains no reserves 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, 2014 was \$7,010,439. The ratio of the unfunded actuarial accrued liability to annual covered payroll was 367.72% as of December 31, 2014.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 8 – Net Other Post-Employment Benefits Obligation (Continued)**

***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, 2014
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	26 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Investment rate of return	2.00% – Current LAIF rating (rounded)
Projected salary increase	1.90%
Inflation - discount rate	2.00%
Health care trend rate	3.00%

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan**

The net pension liability balances have a Measurement Date of June 30, 2016 and June 30, 2015, respectively, which are rolled-forward for the District’s fiscal years ended December 31, 2016 and December 31, 2015.

The District’s Net Pension Liability CalPERS – Miscellaneous Plan is comprised of a net pension liability balance and the balance of the District’s pension-related debt – CalPERS side-fund as follows:

<u>Description</u>	<u>Balance</u> <u>December 31, 2016</u>	<u>Balance</u> <u>December 31, 2015</u>
Net pension liability	\$ 7,779,823	\$ 5,743,143
Pension-related debt – CalPERS side-fund	<u>905,666</u>	<u>984,765</u>
Total Net Pension Liability CalPERS – Miscellaneous Plan	<u>\$ 8,685,489</u>	<u>\$ 6,727,908</u>

***Pension-Related Debt – CalPERS Side-Fund***

As of June 30, 2003, CalPERS implemented risk-pooling for the District’s agent multiple-employer public employee defined benefit pension plan. As a result, the District’s defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate. CalPERS actuarially calculated the amount needed to bring the District into the cost sharing multiple-employer plan on an equal basis with other governmental agencies that had less than 100 active and retired employees combined. The reason that CalPERS switched these governmental agencies into the cost sharing multiple-employer plan was to smooth the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

---

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

***Pension-Related Debt – CalPERS Side-Fund (Continued)***

A portion of the District’s annual required contributions to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the District is required to make annual payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the District’s CalPERS Side-Fund is specific to the District and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the Side Fund falls under the definition of pension-related debt and recorded as liability on the District’s financial statements.

Annual payments on the CalPERS Side-Fund represent principal and interest payments on the pension-related debt. Debt principal and interest expense is blended into the CalPERS pension benefit rate by individual class of District employee and repaid to CalPERS each payroll period throughout the fiscal year. The following is a pay-down schedule of the remaining payments of the District’s CalPERS Side-Fund at a 7.50% interest rate, which was reduced by CalPERS in fiscal year 2012, for fiscal years 2012 and beyond as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
July 1, 2016 to June 30, 2017	\$ 89,620	\$ 62,330	\$ 151,950
July 1, 2017 to June 30, 2018	101,068	55,441	156,509
July 1, 2018 to June 30, 2019	113,517	47,688	161,205
July 1, 2019 to June 30, 2020	127,045	38,966	166,011
July 1, 2020 to June 30, 2021	141,736	29,284	171,020
July 1, 2021 to June 30, 2022	157,688	18,465	176,153
July 1, 2022 to June 30, 2023	174,992	6,562	181,554
Total	<u>\$ 905,666</u>	<u>\$ 258,736</u>	<u>\$ 1,164,402</u>

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

Summary of the pension plan for the year ended December 31, 2016 is as follows:

<u>Type of Account</u>	<u>Balance as of January 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of December 31, 2016</u>
<b>Deferred Outflows of Resources:</b>				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	\$ 996,550	\$ 501,952	\$ (996,550)	\$ 501,952
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	-	1,600,390	-	1,600,390
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	-	32,075	(17,820)	14,255
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	-	145,716	(41,790)	103,926
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	<u>53,152</u>	<u>-</u>	<u>(28,098)</u>	<u>25,054</u>
<b>Total deferred outflows of resources</b>	<u>\$ 1,049,702</u>	<u>\$ 2,280,133</u>	<u>\$ (1,084,258)</u>	<u>\$ 2,245,577</u>
<b>Net Pension Liability:</b>				
CalPERS – Miscellaneous Plan	<u>\$ 6,727,908</u>	<u>\$ 2,954,131</u>	<u>\$ (996,550)</u>	<u>\$ 8,685,489</u>
<b>Deferred Inflows of Resources:</b>				
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	\$ 252,092	\$ -	\$ (252,092)	\$ -
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	28,055	155,043	(54,710)	128,388
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	21,824	27,708	(27,516)	22,016
Changes in assumptions:				
CalPERS – Miscellaneous Plan	<u>502,869</u>	<u>-</u>	<u>(195,378)</u>	<u>307,491</u>
<b>Total deferred inflows of resources</b>	<u>\$ 804,840</u>	<u>\$ 182,751</u>	<u>\$ (529,696)</u>	<u>\$ 457,895</u>

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

Summary of the pension plan for the year ended December 31, 2015 is as follows:

<u>Type of Account</u>	<u>Balance as of January 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of December 31, 2015</u>
<b>Deferred Outflows of Resources:</b>				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	\$ 829,309	\$ 996,550	\$ (829,309)	\$ 996,550
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	49,895	-	(49,895)	-
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	5,089	-	(5,089)	-
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	-	72,135	(18,983)	53,152
<b>Total deferred outflows of resources</b>	<u>\$ 884,293</u>	<u>\$ 1,068,685</u>	<u>\$ (903,276)</u>	<u>\$ 1,049,702</u>
<b>Net Pension Liability:</b>				
CalPERS – Miscellaneous Plan	<u>\$ 6,347,708</u>	<u>\$ 492,098</u>	<u>\$ (111,898)</u>	<u>\$ 6,727,908</u>
<b>Deferred Inflows of Resources:</b>				
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	\$ 1,736,216	\$ 12,845	\$ (1,496,969)	\$ 252,092
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	-	67,974	(39,919)	28,055
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	82,137	(42,694)	(17,619)	21,824
Changes in assumptions:				
CalPERS – Miscellaneous Plan	-	682,466	(179,597)	502,869
<b>Total deferred inflows of resources</b>	<u>\$ 1,818,353</u>	<u>\$ 720,591</u>	<u>\$ (1,734,104)</u>	<u>\$ 804,840</u>

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*General Information about the Pension Plans*

The Plans

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

	<b>Miscellaneous Plans</b>	
	<b>Classic Tier 1</b>	<b>PEPRA Tier 2</b>
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required member contribution rates	8.000%	6.500%
Required employer contribution rates – FY 2016	8.512%	6.237%
Required employer contribution rates – FY 2015	10.781%	6.237%

Plan Description

The District contributes to the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2016 Annual Actuarial Valuation Report. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications.

Employees Covered by Benefit Terms

At June 30, 2016, the following members were covered by the benefit terms:

<b>Plan Members</b>	<b>Miscellaneous Plans</b>		<b>Total</b>
	<b>Classic Tier 1</b>	<b>PEPRA Tier 2</b>	
Active members	72	12	84
Transferred and terminated members	45	1	46
Retired members and beneficiaries	43	-	43
<b>Total plan members</b>	<b>160</b>	<b>13</b>	<b>173</b>

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

***General Information about the Pension Plans (Continued)***

***Employees Covered by Benefit Terms (Continued)***

At June 30, 2015, the following members were covered by the benefit terms:

<u>Plan Members</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>	
Active members	74	8	82
Transferred and terminated members	45	1	46
Retired members and beneficiaries	43	-	43
<b>Total plan members</b>	<b>162</b>	<b>9</b>	<b>171</b>

***Benefit Provided***

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A Classic CalPERS Miscellaneous member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. Public Employees' Pension Reform Act (PEPRA) Miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 12 months for Classic and 36 months for PEPRA of full-time equivalent monthly pay. Retirement benefits for Classic Miscellaneous members are calculated as 2.0% to 2.7% of the average final 12 months compensation. Retirement benefits for PEPRA Miscellaneous members are calculated as 1% to 2.5% of the average final 36 months compensation.

Participant members are eligible for non-industrial disability retirement if becoming disabled and has at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8 percent of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

A member's beneficiary may receive the basic death benefit if the member dies while actively employed. The member must be actively employed with the District to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the members' accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 3 percent.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*General Information about the Pension Plans (Continued)*

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers will be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The public agency cost-sharing plans covered by the Miscellaneous risk pool, the Plan’s actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of members. For the measurement period ended June 30, 2016 and 2015 (the measurement dates), the active member contribution rate for the Miscellaneous Classic Plan and the Miscellaneous PEPRA Plan is 8.00% and 6.500% of annual pay, respectively, and the average employer’s contribution rate is 8.512% and 10.781%, respectively, for the Miscellaneous Classic Plan and 6.237% and 6.237%, respectively, for the Miscellaneous PEPRA Plan of annual payroll, respectively.

Contributions for the year ended December 31, 2016 were as follows:

<u>Contribution Type</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic</u>	<u>PEPRA</u>	
	<u>Tier 1</u>	<u>Tier 2</u>	
Contributions – employer	\$ 474,105	\$ 27,847	\$ 501,952
Contributions – members	212,930	28,055	240,985
<b>Total contributions</b>	<b>\$ 687,035</b>	<b>\$ 55,902</b>	<b>\$ 742,937</b>

Contributions for the year ended December 31, 2015 were as follows:

<u>Contribution Type</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic</u>	<u>PEPRA</u>	
	<u>Tier 1</u>	<u>Tier 2</u>	
Contributions – employer	\$ 945,919	\$ 50,631	\$ 996,550
Contributions – members	387,146	50,737	437,883
<b>Total contributions</b>	<b>\$ 1,333,065</b>	<b>\$ 101,368</b>	<b>\$ 1,434,433</b>

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

---

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans*

Actuarial Methods and Assumptions Used to Determine the Total Pension Liability

For the measurement period ended June 30, 2016 and 2015 (the measurement dates), the total pension liability was determined by rolling forward the June 30, 2015 and 2014 total pension liability. Both the June 30, 2016 and the June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2015 and 2014 valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent, which is net of administrative expenses. An investment return excluding administrative expenses would have been 7.65 percent. CalPERS' Management has determined that using the lower discount rate has resulted in a slightly higher total pension liability and net pension liability and the difference was deemed immaterial to the financial statements. The long-term expected rate of return on the pension plan investments was determined in which best-estimate ranges of expected future real rates are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were considered. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

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

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

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

Discount Rate (Continued)

Investment Type	New Strategic Allocation	Real Return Years 1 - 10 <sup>1</sup>	Real Return Years 11+ <sup>2</sup>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
	<u>100.00%</u>		

<sup>1</sup> An expected inflation rate-of-return of 2.5% is used for years 1 – 10.

<sup>2</sup> An expected inflation rate-of-return of 3.0% is used for years 11+.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

Changes in the discount rate for the year ended June 30, 2016 was as follows:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
CalPERS – Miscellaneous Plan	<u>13,475,689</u>	<u>\$ 8,685,489</u>	<u>\$ 4,726,626</u>

Changes in the discount rate for the year ended June 30, 2015 was as follows:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
CalPERS – Miscellaneous Plan	<u>11,230,495</u>	<u>\$ 6,727,908</u>	<u>\$ 3,010,498</u>

Pension Plan Fiduciary Net Position

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

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

Proportionate Share of Net Pension Liability and Pension Expense

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

Changes in the net pension liability for the year ended June 30, 2016 were as follows:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
<b>CalPERS – Miscellaneous Plan:</b>			
Balance as of June 30, 2015 (Measurement Date)	\$ 33,061,883	\$ 26,333,975	\$ 6,727,908
Balance as of June 30, 2016 (Measurement Date)	\$ 35,580,180	\$ 26,894,691	\$ 8,685,489
<b>Change in Plan Net Pension Liability</b>	<u>\$ 2,518,297</u>	<u>\$ 560,716</u>	<u>\$ 1,957,581</u>

Changes in the net pension liability for the year ended June 30, 2015 were as follows:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
<b>CalPERS – Miscellaneous Plan:</b>			
Balance as of June 30, 2014 (Measurement Date)	\$ 31,624,338	\$ 25,276,630	\$ 6,347,708
Balance as of June 30, 2015 (Measurement Date)	\$ 33,061,883	\$ 26,333,975	\$ 6,727,908
<b>Change in Plan Net Pension Liability</b>	<u>\$ 1,437,545</u>	<u>\$ 1,057,345</u>	<u>\$ 380,200</u>

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

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation dates (June 30, 2015 and 2014). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2016 and 2015). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2016 and 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY 2015-2016 and FY 2014-2015).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

(5) The plan’s TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

(6) The plan’s NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

The District’s proportionate share of the net pension liability for the June 30, 2016 measurement date was as follows:

	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending December 31, 2016</u>	<u>Fiscal Year Ending December 31, 2015</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	
Measurement Date	0.250020%	0.245234%	0.004786%
Percentage of Risk Pool Net Pension Liability	0.100374%	0.098019%	0.002355%

The District’s proportionate share of the net pension liability for the June 30, 2015 measurement date was as follows:

	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending December 31, 2015</u>	<u>Fiscal Year Ending December 31, 2014</u>	
	<u>June 30, 2015</u>	<u>June 30, 2014</u>	
Measurement Date	0.245234%	0.256838%	-0.011604%
Percentage of Risk Pool Net Pension Liability	0.098019%	0.092479%	0.005540%

For the years ended December 31, 2016 and 2015, the District recognized pension expense in the amounts of (\$414,761) and (\$798,722) and respectively.

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (EARS�) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARS� for risk pool for the 2014-15 measurement period is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired).

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Pension contributions made after the measurement date	\$ 501,952	\$ -
Difference between actual and proportionate share of employer contributions	14,255	(128,388)
Adjustment due to differences in proportions	103,926	(22,016)
Differences between expected and actual experience	25,054	-
Differences between projected and actual earnings on pension plan investments	1,600,390	-
Changes in assumptions	-	(307,491)
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<u>\$ 2,245,577</u>	<u>\$ (457,895)</u>

The District will recognize \$501,952 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended December 31, 2017.

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Pension contributions made after the measurement date	\$ 996,550	\$ -
Difference between actual and proportionate share of employer contributions	-	(28,055)
Adjustment due to differences in proportions	-	(21,824)
Differences between expected and actual experience	53,152	-
Differences between projected and actual earnings on pension plan investments	-	(252,092)
Changes in assumptions	-	(502,869)
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<u>\$ 1,049,702</u>	<u>\$ (804,840)</u>

The District will recognize \$996,550 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended December 31, 2016.

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 9 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2016 will be amortized to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2017	\$ 56,213
2018	96,842
2019	718,159
2020	414,516
<b>Total</b>	<b>\$ 1,285,730</b>

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2015 will be amortized to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2017	\$ (373,062)
2018	(371,127)
2019	(329,739)
2020	322,240
<b>Total</b>	<b>\$ (751,688)</b>

**Note 10 – Net Investment in Capital Assets**

Net investment in capital assets consisted of the following as of December 31, 2016 and 2015 were as follows:

Description	Balance December 31, 2016	Balance December 31, 2015
<b>Net investment in capital assets:</b>		
Restricted – cash and cash equivalents – revenue bond proceeds for construction	\$ 403,920	\$ 1,191,266
Capital assets – not being depreciated	8,208,610	7,961,504
Capital assets, net – being depreciated	145,815,301	146,985,060
Deferred loss on debt defeasance, net	2,478,516	2,635,209
Capital lease payable – current	(47,286)	(184,459)
Loan payable – current	(1,115,453)	(1,082,553)
Revenue bonds payable – current	(495,000)	(475,000)
Capital lease payable	-	(47,286)
Loan payable – current	(7,462,288)	(8,577,741)
Revenue bonds payable, net	(44,446,937)	(45,044,066)
<b>Total net investment in capital assets</b>	<b>\$ 103,339,383</b>	<b>\$ 103,361,934</b>

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

**Note 11 – Unrestricted (Deficit) Net Position**

As of December 31, 2016 and 2015, the District has an unrestricted net position deficit of (\$8,596,552) and (\$6,946,757). Due to the nature of the deficit from the implementation of GASB No. 68/71 in fiscal year 2015, the District will continue to make its actuarial determined contributions to CalPERS and annually review its outstanding net pension obligation funding requirements for future periods to reduce the deficit position.

**Note 12 – Prior Period Adjustment**

Description	Balance
<b>Net position as of January 1, 2015 – as previously reported</b>	\$ 105,637,337
Net pension liability – GASB No. 68/71 implementation	(5,293,506)
Pension contributions made after the measurement date	829,309
Difference between actual and proportionate share of employer contributions	49,895
Differences between projected and actual earnings on pension plan investments	(1,736,216)
Adjustment due to differences in proportions	(77,048)
<b>Total prior period adjustments</b>	(6,227,566)
<b>Net position as of January 1, 2015 – as restated</b>	<u>\$ 99,409,771</u>

With the implementation of GASB Statements No. 68 and 71 in fiscal year 2015, the District was required to record a prior period adjustment of (\$6,227,566) to establish the net pension liability as of December 31, 2014 of (\$5,293,506) net of the employer contributions to pension plan made after the measurement date of \$829,309 and the changes in employer contributions and differences between proportionate share of pension expense of \$49,895 less the recognized net differences between projected and actual earnings on pension plan investments of \$(1,736,216) and the recognized portion of adjustment due to differences in proportions of \$(77,048) as prescribed by GASB Statements No. 68 and 71 accounting standards. (See Note 9 for further information on the net pension liability.)

**Note 13 – Deferred Compensation Savings Plan**

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

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

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

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

---

**Note 14 – 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, 2016 and 2015, the District participated in the self-insured Liability, Property and Worker’s Compensation insurance programs provided by ACWA/Joint Powers Insurance Authority through AON Risk Insurance Services West, Inc. as follows:

***General and Auto Liability***

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

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

***Property***

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

The following is an overview of the program:

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

***Worker’s Compensation***

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

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

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

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2016 and 2015**

---

**Note 14 – Risk Management (Continued)**

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, 2016, 2015 and 2014. 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, 2016, 2015 and 2014.

**Note 15 – Commitments and Contingencies**

***State Water Contract***

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

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 6,403,865
2017	6,964,246
2018	7,054,106
2019	7,119,107
2020	7,048,728

As of December 31, 2016, the District has expended approximately \$101,313,463 since the District started participating in the State Water Contract.

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

<u>Type of Long-Term Obligation</u>	<u>Amount</u>
State Water Project Contract:	
Transportation facilities	\$ 100,186,916
Delta water charges	27,874,349
Off-aqueduct power facilities	103,120
Revenue bond surcharge	5,565,860
Total	<u>\$ 133,730,245</u>

**Palmdale Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended December 31, 2015**

**Note 15 – Commitments and Contingencies (Continued)**

***Bay/Delta Regulatory and Planning Activities***

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

***Construction Contracts***

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction. The District has committed to approximately \$1,563,786 to complete the open construction contracts as of December 31, 2016. These include the following:

<u>Project Description</u>	<u>Cost of Project to Date</u>	<u>Estimated Costs to Complete</u>	<u>Total Expected Project Cost</u>
Sediment removal - Littlerock Dam	\$ 1,807,482	\$ 148,000	\$ 1,955,482
Palmdale Regional Groundwater Recharge Project	2,274,315	295,000	2,569,315
Upper Armargosa Recharge Project	129,215	1,120,786	1,250,001
Construction-in-process	<u>\$ 4,211,012</u>	<u>\$ 1,563,786</u>	<u>\$ 5,774,798</u>

***Other Litigation***

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

*This page intentionally left blank.*

**REQUIRED SUPPLEMENTARY INFORMATION**

*This page intentionally left blank.*

**Palmdale Water District**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the District's Proportionate Share of the Plan's Net Pension Liability**  
**For the Years Ended December 31, 2016 and 2015**

---

**Last Ten Fiscal Years**

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

<b>Measurement Date:</b>	<b>June 30, 2016<sup>1</sup></b>	<b>June 30, 2015<sup>1</sup></b>
District's Proportion of the Net Pension Liability	<u>0.100374%</u>	<u>0.098019%</u>
District's Proportionate Share of the Net Pension Liability	<u>\$ 8,685,489</u>	<u>\$ 6,727,908</u>
District's Covered-Employee Payroll	<u>\$ 6,778,010</u>	<u>\$ 6,377,315</u>
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	<u>128.14%</u>	<u>105.50%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>74.06%</u>	<u>78.40%</u>

<sup>1</sup> Historical information is required only for measurement periods for which GASB No. 68 is applicable.

**Palmdale Water District**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the District's Contributions to the Pension Plan**  
**For the Years Ended December 31, 2016 and 2015**

**Last Ten Fiscal Years**

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

<b>Contributions for the Years Ending</b>	<b>Dec. 31, 2016<sup>1</sup></b>	<b>Dec. 31, 2015<sup>1</sup></b>	<b>Dec. 31, 2014<sup>1</sup></b>
Actuarially Determined Contribution <sup>2</sup>	\$ 914,747	\$ 819,205	\$ 805,370
Contribution in Relation to the Actuarially Determined Contribution <sup>2</sup>	(914,747)	(819,205)	(805,370)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered-Employee Payroll	\$ 6,589,909	\$ 6,497,710	\$ 5,907,552
Contributions as a Percentage of Covered-Employee Payroll	13.88%	12.61%	13.63%

<sup>1</sup> Historical information is required only for measurement periods for which GASB No. 68 is applicable.

<sup>2</sup> Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

<sup>3</sup> Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

**Notes to the Schedule:**

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes)

**Palmdale Water District**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Funding Progress – Other Post-Employment Benefits Plan**  
**For the Years Ended December 31, 2016 and 2015**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
Dec 31, 2014	\$ -	\$ 25,778,850	\$ 25,778,850	0.00%	\$ 7,010,439	367.72%
Dec 31, 2010	\$ -	\$ 16,234,820	\$ 16,234,820	0.00%	\$ 6,547,188	247.97%
Dec 31, 2008	\$ -	\$ 4,497,022	\$ 4,497,022	0.00%	\$ 6,311,893	71.25%

**Notes to the Schedule:**

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every two years or annually, if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2017, based on the year ending December 31, 2016.

*This page intentionally left blank.*

## **SUPPLEMENTARY INFORMATION**

*This page intentionally left blank.*

**Palmdale Water District**  
**Schedules of Debt Service Net Revenues Coverage**  
**For the Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Total revenues:</b>		
Operating revenues	\$ 22,586,801	\$ 21,248,419
Non-operating revenues	7,894,507	8,179,877
Capital contributions – capital improvement fees and grants	<u>541,662</u>	<u>367,481</u>
<b>Total revenues</b>	<u>31,022,970</u>	<u>29,795,777</u>
<b>Total expenses:</b>		
Operating expenses before depreciation expense	<u>22,704,309</u>	<u>20,319,286</u>
Non-operating expenses	4,574,111	4,309,429
Less debt service items:		
Interest expense – long-term debt	<u>(2,211,323)</u>	<u>(2,234,905)</u>
<b>Total non-operating expenses adjusted for debt service items</b>	<u>2,362,788</u>	<u>2,074,524</u>
	<u>25,067,097</u>	<u>22,393,810</u>
<b>Net revenues available for debt service</b>	<u>\$ 5,955,873</u>	<u>\$ 7,401,967</u>
<b>Debt service for the fiscal year</b>	<u>\$ 3,909,338</u>	<u>\$ 3,912,369</u>
<b>Debt service net revenues coverage ratio</b>	<u>152%</u>	<u>189%</u>