



**PALMDALE WATER DISTRICT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Years Ended
December 31, 2020 and 2019**

NIGRO & NIGRO^{PC}

PALMDALE WATER DISTRICT

For the Years Ended December 31, 2020 and 2019

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Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
Palmdale Water District
Palmdale, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of Palmdale Water District, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Palmdale Water District as of December 31, 2020 and 2019, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total OPEB liability and related ratios, and schedule of OPEB contributions, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a separate report dated June 21, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
June 21, 2021

PALMDALE WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2020 and 2019

Management's Discussion and Analysis (MD&A) offers readers of Palmdale Water District's financial statements a narrative overview of the District's financial activities for the years ended December 31, 2020 and 2019. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In 2020, the District's net position increased 1.65% or \$1,566,680 from the prior year's net position of \$95,179,779 to \$96,746,459, as a result of this year's operations.
- In 2019, the District's net position decreased 0.55% or \$528,518 from the prior year's net position of \$95,708,297 to \$95,179,779, as a result of this year's operations.
- In 2020, the District's operating revenues increased by 9.49% or \$2,387,572 from \$25,165,648 to \$27,553,220, from the prior year, primarily due to an increase in water sales – commodity charge of \$2,554,774.
- In 2019, the District's operating revenues increased by 1.13% or \$281,570 from \$24,884,078 to \$25,165,648, from the prior year, primarily due to a decrease in water sales – commodity charge of (\$478,837) and an increase in the monthly meter service charge of \$673,242.
- In 2020, the District's operating expenses before overhead absorption and depreciation expense increased by 0.76% or \$190,491 from \$25,091,896 to \$25,282,387, from the prior year, primarily due to an increase in administration expenses of \$510,656 and finance and customer care of \$135,515.
- In 2019, the District's operating expenses before overhead absorption and depreciation expense increased by 2.68% or \$656,061 from \$24,435,835 to \$25,091,896, from the prior year, primarily due to an increase in administration expenses of \$649,008 and finance and customer care of \$148,444.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements accompanying this MD&A present the net position, results of operations, and changes in cash flow during the years ending December 31, 2020 and 2019. These financial statements have been prepared using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

PALMDALE WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2020 and 2019

REQUIRED FINANCIAL STATEMENTS

Balance Sheets

The Balance Sheet presents information on the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, zoning, and new or changed legislation or regulations also need to be considered when establishing financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflow of resources, resulting in a net position of \$96,746,459 and \$95,179,779 as of December 31, 2020 and 2019, respectively.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the District's net position changed during the year. All of the year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the results of the District's operations for the year and can be used to determine if the District has successfully recovered all of its costs through user fees and other charges. Operating revenues and expenses are related to the District's core activities. Non-operating revenues and expenses are not directly related to the core activities of the District (e.g. interest income, interest expense, property taxes, gain or loss on sale of assets). For the year ended December 31, 2020, net position from operations increased \$1,566,680. Also, for the year ended December 31, 2019, net position from operations decreased \$528,518.

Statement of Cash Flows

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

District cash flows for the years have been categorized into one of the following activities: operating, noncapital financing, capital and related financing, or investing. For 2020, the total of these categories represents a decrease in cash and cash equivalents of \$6,329,853, which is subtracted from the beginning cash and cash equivalents of \$10,066,895, to arrive at ending cash and cash equivalents of \$3,737,042. For 2019, the total of these categories represents a decrease in cash and cash equivalents of \$5,318,959, which is subtracted from the beginning cash and cash equivalents of \$15,385,854, to arrive at ending cash and cash equivalents of \$10,066,895.

PALMDALE WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2020 and 2019

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Balance Sheets

	Balance, Dec. 31, 2020	Balance, Dec. 31, 2019	Change	Balance, Dec. 31, 2018	Change
Assets:					
Current assets	\$ 20,210,560	\$ 20,032,372	\$ 178,188	\$ 19,590,071	\$ 442,301
Non-current assets	4,466,060	6,324,308	(1,858,248)	13,374,737	(7,050,429)
Capital assets, net	166,964,871	162,706,256	4,258,615	155,765,727	6,940,529
Total assets	191,641,491	189,062,936	2,578,555	188,730,535	332,401
Deferred outflows of resources	9,018,550	5,101,099	3,917,451	5,530,101	(429,002)
Total assets and deferred outflows	\$ 200,660,041	\$ 194,164,035	\$ 6,496,006	\$ 194,260,636	\$ (96,601)
Liabilities:					
Current liabilities	10,168,200	9,212,469	955,731	8,225,820	986,649
Non-current liabilities	89,145,383	84,670,431	4,474,952	86,440,682	(1,770,251)
Total liabilities	99,313,583	93,882,900	5,430,683	94,666,502	(783,602)
Deferred inflows of resources	4,599,999	5,101,356	(501,357)	3,885,837	1,215,519
Net position:					
Net investment in capital assets	110,142,267	106,542,240	3,600,027	105,089,394	1,452,846
Restricted	2,201,548	1,958,222	243,326	1,668,290	289,932
Unrestricted	(15,597,356)	(13,320,683)	(2,276,673)	(11,049,387)	(2,271,296)
Total net position	96,746,459	95,179,779	1,566,680	95,708,297	(528,518)
Total liabilities, deferred inflows and net position	\$ 200,660,041	\$ 194,164,035	\$ 6,496,006	\$ 194,260,636	\$ (96,601)

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

The District's Net Position as of December 31, 2020 totaled \$96,746,459 compared with \$95,179,779 as of December 31, 2019, a increase of 1.65%.

The District's Net Position as of December 31, 2019 totaled \$95,179,779 compared with \$95,708,297 as of December 31, 2019, a decrease of 0.55%.

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

PALMDALE WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2020 and 2019

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Analysis of Revenues and Expenses

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

	<u>Balance, Dec. 31, 2020</u>	<u>Balance, Dec. 31, 2019</u>	<u>Change</u>	<u>Balance, Dec. 31, 2018</u>	<u>Change</u>
Operating revenues	\$ 27,553,220	\$ 25,165,648	\$ 2,387,572	\$ 24,884,078	\$ 281,570
Operating expenses	(25,282,387)	(25,091,896)	(190,491)	(24,435,835)	(656,061)
Operating income before overhead absorption	<u>2,270,833</u>	<u>73,752</u>	<u>2,197,081</u>	<u>448,243</u>	<u>(374,491)</u>
Overhead absorption	557,620	1,049,246	(491,626)	103,353	945,893
Operating income before depreciation	<u>2,828,453</u>	<u>1,122,998</u>	<u>1,705,455</u>	<u>551,596</u>	<u>571,402</u>
Depreciation expense	(5,144,968)	(5,257,262)	112,294	(5,353,052)	95,790
Operating (loss) after depreciation	<u>(2,316,515)</u>	<u>(4,134,264)</u>	<u>1,817,749</u>	<u>(4,801,456)</u>	<u>667,192</u>
Non-operating revenues(expenses), net	2,647,757	2,972,460	(324,703)	3,122,489	(150,029)
Net loss before capital contributions	<u>331,242</u>	<u>(1,161,804)</u>	<u>1,493,046</u>	<u>(1,678,967)</u>	<u>517,163</u>
Capital contributions	1,235,438	633,286	602,152	154,613	478,673
Change in net position	<u>1,566,680</u>	<u>(528,518)</u>	<u>2,095,198</u>	<u>(1,524,354)</u>	<u>995,836</u>
Net position:					
Beginning of year	95,179,779	95,708,297	(528,518)	94,917,603	790,694
Prior period adjustment	-	-	-	2,315,048	(2,315,048)
End of year	<u>\$ 96,746,459</u>	<u>\$ 95,179,779</u>	<u>\$ 1,566,680</u>	<u>\$ 95,708,297</u>	<u>\$ (528,518)</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position increased(decreased) from operations by \$1,566,680, (\$528,518), and (\$1,524,354), for the years ended December 31, 2020, 2019, and 2018 respectively.

PALMDALE WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2020 and 2019

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Total Revenues

	Balance, Dec. 31, 2020	Balance, Dec. 31, 2019	Change	Balance, Dec. 31, 2018	Change
Operating revenues:					
Water sales – commodity charge	\$ 11,138,571	\$ 8,583,797	\$ 2,554,774	\$ 9,062,634	\$ (478,837)
Water sales – wholesale	467,776	524,847	(57,071)	496,975	27,872
Monthly meter service charge	13,832,147	13,967,724	(135,577)	13,294,482	673,242
Water quality fees	824,429	760,377	64,052	803,306	(42,929)
Elevation fees	363,869	336,093	27,776	378,380	(42,287)
Other charges for services	926,428	992,810	(66,382)	848,301	144,509
Total operating revenues	27,553,220	25,165,648	2,387,572	24,884,078	281,570
Non-operating:					
Property taxes – ad valorem	1,678,388	1,783,332	(104,944)	2,032,216	(248,884)
Property tax assessment for State Water Project	5,194,911	4,790,480	404,431	4,811,735	(21,255)
Successor agency component of property taxes	731,045	724,595	6,450	403,992	320,603
Rental revenue – cellular towers	15,394	24,059	(8,665)	44,754	(20,695)
Investment earnings	170,760	451,831	(281,071)	292,316	159,515
Change in investment – PRWA	243,326	289,932	(46,606)	296,423	(6,491)
Legal and insurance refunds/settlements	2,491	54,050	(51,559)	132,256	(78,206)
Department of Water Resources – FCR	299,879	247,469	52,410	266,877	(19,408)
Other non-operating revenues	42,971	71,953	(28,982)	203,082	(131,129)
Total non-operating	8,379,165	8,437,701	(58,536)	8,483,651	(45,950)
Total revenues	\$ 35,932,385	\$ 33,603,349	\$ 2,329,036	\$ 33,367,729	\$ 235,620

In 2020, the District's operating revenues increased by 9.49% or \$2,387,572 from \$25,165,648 to \$27,553,220, from the prior year, primarily due to an increase in water sales – commodity charge of \$2,554,774.

In 2019, the District's operating revenues increased by 1.13% or \$281,570 from \$24,884,078 to \$25,165,648, from the prior year, primarily due to a decrease in water sales – commodity charge of (\$478,837) and an increase in the monthly meter service charge of \$673,242.

PALMDALE WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2020 and 2019

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Total Expenses

	Balance, Dec. 31, 2020	Balance, Dec. 31, 2019	Change	Balance, Dec. 31, 2018	Change
Operating expenses:					
Source of supply – water purchases	\$ 2,295,515	\$ 2,579,380	\$ (283,865)	\$ 2,799,849	\$ (220,469)
Operations and production	3,542,182	3,671,450	(129,268)	3,698,309	(26,859)
Facilities	7,463,258	7,249,738	213,520	7,355,368	(105,630)
Engineering	1,836,486	1,985,475	(148,989)	1,897,684	87,791
Water conservation	373,612	480,690	(107,078)	356,914	123,776
Administration	6,598,878	6,088,222	510,656	5,439,214	649,008
Finance and customer care	3,172,456	3,036,941	135,515	2,888,497	148,444
Operating expenses before overhead absorption	25,282,387	25,091,896	190,491	24,435,835	656,061
Overhead absorption	(557,620)	(1,049,246)	491,626	(103,353)	(945,893)
Operating expenses before depreciation	24,724,767	24,042,650	682,117	24,332,482	(289,832)
Depreciation	5,144,968	5,257,262	(112,294)	5,353,052	(95,790)
Total operating expenses	29,869,735	29,299,912	569,823	29,685,534	(385,622)
Non-operating expenses:					
Cost of debt issuance	398,953	-	398,953	308,867	(308,867)
State Water Project amortization expense	2,854,227	2,854,227	-	2,646,401	207,826
Interest expense – long-term debt	2,478,228	2,611,014	(132,786)	2,405,894	205,120
Total non-operating	5,731,408	5,465,241	266,167	5,361,162	104,079
Total expenses	\$ 35,601,143	\$ 34,765,153	\$ 835,990	\$ 35,046,696	\$ (281,543)

In 2020, the District's operating expenses before overhead absorption and depreciation expense increased by 0.76% or \$190,491 from \$25,091,896 to \$25,282,387, from the prior year, primarily due to an increase in administration expenses of \$510,656 and finance and customer care of \$135,515.

In 2019, the District's operating expenses before overhead absorption and depreciation expense increased by 2.68% or \$656,061 from \$24,435,835 to \$25,091,896, from the prior year, primarily due to an increase in administration expenses of \$649,008 and finance and customer care of \$148,444.

PALMDALE WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2020 and 2019

CAPITAL ASSETS

At the end of 2020, 2019 and 2018, the District's investment in capital assets was \$166,964,871, \$162,706,256, and \$155,765,727, net of accumulated depreciation, respectively. Capital asset additions during the years ended December 31, 2020 and 2019 were \$7,019,603 and \$10,815,897, for various projects and equipment. (More detailed information about capital assets can be found in Note 5 to the financial statements). Total depreciation expense for the year exceeded \$5.1 million and \$5.2 million as of December 31, 2020 and 2019, respectively.

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

	Balance, Dec. 31, 2020	Balance, Dec. 31, 2019	Balance, Dec. 31, 2018
Capital assets:			
Non-depreciable assets	\$ 25,856,069	\$ 20,107,192	\$ 12,562,526
Depreciable assets	322,008,332	315,711,756	308,204,404
Accumulated depreciation	(180,899,530)	(173,112,692)	(165,001,203)
Total capital assets, net	\$ 166,964,871	\$ 162,706,256	\$ 155,765,727

LONG-TERM DEBT

At year-end the District had \$62.7 million in capital leases, loan payables, and revenue bonds payables – an increase(decrease) of \$160,321 and (\$2,009,370) in 2020 and 2019 respectively – as shown in Table A-6. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

	Balance, Dec. 31, 2020	Balance, Dec. 31, 2019	Balance, Dec. 31, 2018
Long-term debt:			
Capital leases payable	\$ 175,290	\$ 429,317	\$ 592,917
Loan payable – 2012	3,904,026	5,128,609	6,315,204
Revenue bonds payable, net – 2013	21,253,423	43,110,553	43,732,681
Revenue bonds payable, net – 2018	13,833,019	13,870,063	13,907,110
Revenue refunding bonds – non-taxable – 2020	8,978,105	-	-
Revenue refunding bonds – taxable – 2020	14,555,000	-	-
Total	\$ 62,698,863	\$ 62,538,542	\$ 64,547,912

PALMDALE WATER DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2020 and 2019*

CONDITIONS AFFECTING CURRENT FINANCIAL POSITION

- The District continued to see a good water usage trend for 2020. The District's customers continue to change their water habits after being required to meet the mandatory drought restrictions back in 2016.
- Billed water consumption for the year ended December 31, 2020 was at 17,213-acre feet compared to 15,871-acre feet for the year ended December 31, 2019.
- The District's assessed valuation has increased to \$2.02 billion for FY 2019/2020 from \$1.91 billion for FY 2018/2019.
- The District received \$1.678 million in ad valorem property tax revenue for 2020.
- The District received \$731,045 in successor agency component property taxes for 2020.

OTHER FACTORS AFFECTING THE DISTRICT'S FUTURE FINANCIAL POSITION

At the end of the first quarter of calendar year 2020, the United States and global economy suffered a major decline due to the impact of the COVID-19 virus. This economic decline may affect the District's operations and investment earnings for the remainder of calendar year 2020 and beyond. However, the potential impact to the District is unknown at this time.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

PALMDALE WATER DISTRICT*Balance Sheets**December 31, 2020 and 2019*

ASSETS	2020	2019
Current assets:		
Cash and cash equivalents (Note 2)	\$ 1,472,530	\$ 5,700,809
Investments (Note 2)	10,264,065	6,720,309
Accrued interest receivable	37,826	36,583
Accounts receivable – water sales and services, net (Note 3)	2,303,977	1,701,748
Accounts receivable – property taxes and assessments	4,340,553	4,254,544
Accounts receivable – other	66,464	11,502
Materials and supplies inventory	1,068,101	1,020,587
Prepaid expenses	657,044	586,290
Total current assets	20,210,560	20,032,372
Non-current assets:		
Restricted – cash and cash equivalents (Note 2)	2,264,512	4,366,086
Investment in Palmdale Recycled Water Authority (Note 4)	2,201,548	1,958,222
Capital assets – not being depreciated (Note 5)	25,856,069	20,107,192
Capital assets – being depreciated, net (Note 5)	141,108,802	142,599,064
Total non-current assets	171,430,931	169,030,564
Total assets	191,641,491	189,062,936
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt defeasance, net (Note 7)	3,611,747	2,008,440
Deferred amounts related to net OPEB obligation (Note 8)	3,350,850	860,122
Deferred amounts related to net pension liability (Note 9)	2,055,953	2,232,537
Total deferred outflows of resources	9,018,550	5,101,099
Total assets and deferred outflows of resources	\$ 200,660,041	\$ 194,164,035

PALMDALE WATER DISTRICT
Balance Sheets (continued)
December 31, 2020 and 2019

LIABILITIES	2020	2019
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,298,008	\$ 1,494,954
Customer deposits for water service	3,449,294	3,391,698
Construction and developer deposits	1,609,382	1,628,415
Accrued interest payable	513,145	635,529
Long-term liabilities – due within one year:		
Compensated absences (Note 6)	172,828	134,111
Capital lease payable (Note 7)	87,040	168,179
Loan payable (Note 7)	1,261,002	1,224,583
Revenue bonds payable (Note 7)	777,501	535,000
Total current liabilities	10,168,200	9,212,469
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 6)	518,485	402,332
Capital lease payable (Note 7)	88,250	261,138
Loan payable (Note 7)	2,643,024	3,904,026
Revenue bonds payable, net (Note 7)	57,842,046	56,445,616
Net other post-employment benefits obligation (Note 8)	16,479,807	12,965,981
Net pension liability (Note 9)	11,573,771	10,691,338
Total non-current liabilities	89,145,383	84,670,431
Total liabilities	99,313,583	93,882,900
DEFERRED INFLOWS OF RESOURCES		
Unearned property taxes and assessments	3,300,000	3,300,000
Deferred amounts related to net OPEB obligation (Note 8)	1,035,319	1,187,572
Deferred amounts related to net pension liability (Note 9)	264,680	613,784
Total deferred inflows of resources	4,599,999	5,101,356
NET POSITION		
Net investment in capital assets (Note 10)	110,142,267	106,542,240
Restricted – Palmdale Recycled Water Authority (Note 4)	2,201,548	1,958,222
Unrestricted (Deficit) (Note 11)	(15,597,356)	(13,320,683)
Total net position	96,746,459	95,179,779
Total liabilities, deferred inflows of resources and net position	\$ 200,660,041	\$ 194,164,035

PALMDALE WATER DISTRICT

Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Water sales – commodity charge	\$ 11,138,571	\$ 8,583,797
Water sales – wholesale	467,776	524,847
Monthly meter service charge	13,832,147	13,967,724
Water quality fees	824,429	760,377
Elevation fees	363,869	336,093
Other charges for services	926,428	992,810
Total operating revenues	<u>27,553,220</u>	<u>25,165,648</u>
Operating expenses:		
Source of supply – water purchases	2,295,515	2,579,380
Operations and production	3,542,182	3,671,450
Facilities	7,463,258	7,249,738
Engineering	1,836,486	1,985,475
Water conservation	373,612	480,690
Administration	6,598,878	6,088,222
Finance and customer care	3,172,456	3,036,941
Total operating expenses	<u>25,282,387</u>	<u>25,091,896</u>
Operating income before overhead absorption	2,270,833	73,752
Overhead absorption	557,620	1,049,246
Operating income before depreciation expense	2,828,453	1,122,998
Depreciation expense (Note 5)	<u>(5,144,968)</u>	<u>(5,257,262)</u>
Operating (loss)	<u>(2,316,515)</u>	<u>(4,134,264)</u>
Non-operating revenues(expenses):		
Property taxes – ad valorem	1,678,388	1,783,332
Property tax assessment for State Water Project	5,194,911	4,790,480
Successor agency component of property taxes	731,045	724,595
Rental revenue – cellular towers	15,394	24,059
Investment earnings	170,760	451,831
Changes in investment – Palmdale Recycled Water Authority (Note 4)	243,326	289,932
Legal and insurance refunds/settlements	2,491	54,050
Department of Water Resources – fixed charge recovery	299,879	247,469
Other non-operating revenues	42,971	71,953
Cost of debt issuance (Note 7)	(398,953)	-
State Water Project amortization expense (Note 5)	(2,854,227)	(2,854,227)
Interest expense – long-term debt	<u>(2,478,228)</u>	<u>(2,611,014)</u>
Total non-operating revenue(expense), net	<u>2,647,757</u>	<u>2,972,460</u>
Net (loss) before capital contributions	<u>331,242</u>	<u>(1,161,804)</u>
Capital contributions:		
Capital improvement fees	1,235,438	624,101
Federal and state capital grants	-	9,185
Total capital contributions	<u>1,235,438</u>	<u>633,286</u>
Change in net position	1,566,680	(528,518)
Net position:		
Beginning of year	<u>95,179,779</u>	<u>95,708,297</u>
End of year	<u>\$ 96,746,459</u>	<u>\$ 95,179,779</u>

The notes to financial statements are an integral part of this statement.

PALMDALE WATER DISTRICT*Statements of Cash Flows**For the Years Ended December 31, 2020 and 2019*

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash receipts from water sales and services	\$ 26,989,554	\$ 25,686,817
Cash receipts from others	305,773	401,256
Cash paid to employees for salaries and wages	(9,160,656)	(8,413,708)
Cash paid to vendors and suppliers for materials and services	<u>(13,701,317)</u>	<u>(14,379,015)</u>
Net cash provided by operating activities	<u>4,433,354</u>	<u>3,295,350</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes	2,323,424	2,606,866
Proceeds from property tax assessment for State Water Project	5,194,911	4,790,480
Acquisition of State Water Project participation rights	<u>(5,238,207)</u>	<u>(4,236,121)</u>
Net cash provided by non-capital financing activities	<u>2,280,128</u>	<u>3,161,225</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(7,019,603)	(10,815,897)
Proceeds from capital improvement fees and capital grants	1,235,438	633,286
Proceeds from issuance of revenue refunding bonds	23,563,523	-
Purchase of state and local government securities (SLGS) for refunding	(22,544,033)	-
Cost of debt issuance	(398,953)	-
Principal paid on long-term debt	(2,044,028)	(1,870,195)
Interest paid on long-term debt	<u>(2,461,438)</u>	<u>(2,484,935)</u>
Net cash used in capital and related financing activities	<u>(9,669,094)</u>	<u>(14,537,741)</u>
Cash flows from investing activities:		
Purchase of investments	(14,609,797)	(5,389,480)
Sales of investments	11,081,930	7,787,908
Investment earnings	<u>153,626</u>	<u>363,779</u>
Net cash provided by (used in) investing activities	<u>(3,374,241)</u>	<u>2,762,207</u>
Net decrease in cash and cash equivalents	<u>(6,329,853)</u>	<u>(5,318,959)</u>
Cash and cash equivalents:		
Beginning of year	<u>10,066,895</u>	<u>15,385,854</u>
End of year	<u>\$ 3,737,042</u>	<u>\$ 10,066,895</u>
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents	\$ 1,472,530	\$ 5,700,809
Restricted assets – cash and cash equivalents	<u>2,264,512</u>	<u>4,366,086</u>
Total cash and cash equivalents	<u>\$ 3,737,042</u>	<u>\$ 10,066,895</u>

PALMDALE WATER DISTRICT*Statements of Cash Flows (continued)**For the Years Ended December 31, 2020 and 2019*

	<u>2020</u>	<u>2019</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	\$ (2,316,515)	\$ (4,134,264)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	5,144,968	5,257,262
Overhead absorption	(557,620)	(1,049,246)
Rental revenue - cellular towers	15,394	24,059
Legal and insurance refunds/settlements	2,491	54,050
Department of Water Resources - fixed charge recovery	299,879	247,469
Other non-operating revenues	42,971	71,953
Change in assets - (increase)decrease:		
Accounts receivable - water sales and services, net	(602,229)	82,071
Accounts receivable - other	(54,962)	3,725
Materials and supplies inventory	(47,514)	2,014
Prepaid expenses	(70,754)	9,564
Change in deferred outflows of resources - (increase)decrease		
Deferred amounts related to net OPEB obligation	(2,490,728)	63,260
Deferred amounts related to net pension liability	176,584	209,050
Change in liabilities - increase(decrease):		
Accounts payable and accrued expenses	803,054	487,426
Customer deposits for water service	57,596	449,068
Construction and developer deposits	(19,033)	(9,970)
Compensated absences	154,870	62,615
Net other post-employment benefits obligation	3,513,826	(632,155)
Net pension liability	882,433	881,880
Change in deferred inflows of resources - increase(decrease)		
Deferred amounts related to net OPEB obligation	(152,253)	1,187,572
Deferred amounts related to net pension liability	(349,104)	27,947
Total adjustments	<u>6,749,869</u>	<u>7,429,614</u>
Net cash provided by operating activities	<u>\$ 4,433,354</u>	<u>\$ 3,295,350</u>
Non-cash investing, capital and financing transactions:	<u>2020</u>	<u>2019</u>
Change in fair-value of investments	\$ 15,891	\$ 85,548
Amortization of deferred amount on debt defeasance	\$ (156,693)	\$ (156,692)
Deferred amount on debt defeasance	\$ 1,795,890	\$ -
Amortization of net premium(discount) on revenue bonds	\$ 139,174	\$ 139,175
Changes in investment - Palmdale Recycled Water Authority	\$ 243,326	\$ 289,932

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

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

B. Reporting Entity

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

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

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

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

C. Basis of Presentation, Basis of Accounting

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

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

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

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

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

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

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

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

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

1. Cash and Cash Equivalents

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

2. Investments

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

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

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

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

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

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

2. Investments (continued)

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

3. Allowance for Doubtful Accounts

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

4. Prepays

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

5. Materials and Supplies Inventory

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

6. Capital Assets

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

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

7. State Water Project – Participation Rights

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

8. 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.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

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

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

9. Compensated Absences

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

10. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans and addition to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at the CalPERS's website.

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

<u>CalPERS</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Valuation Date	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2020	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019	July 1, 2017 to June 30, 2018

11. Postemployment Benefits Other Than Pensions (OPEB)

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

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

<u>OPEB</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Valuation Date	December 31, 2018	December 31, 2018
Measurement Date	December 31, 2019	December 31, 2018
Measurement Period	Jan. 1, 2019 to Dec. 31, 2019	Jan. 1, 2018 to Dec. 31, 2018

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

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

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

12. Net Position

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

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

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

E. Property Taxes

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

F. Water Sales

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

G. Capital Improvement Fees

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

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

H. Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

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

Description	Balance, Dec. 31, 2020	Balance, Dec. 31, 2019
Cash and cash equivalents	\$ 1,472,530	\$ 5,700,809
Investments	10,264,065	6,720,309
Restricted – cash and cash equivalents	2,264,512	4,366,086
Total	\$ 14,001,107	\$ 16,787,204

Cash and investments consisted of the following:

Description	Balance, Dec. 31, 2020	Balance, Dec. 31, 2019
Cash on hand	\$ 5,700	\$ 5,700
Demand deposits held with financial institutions	735,924	1,080,727
Local Agency Investment Fund (LAIF)	12,641	12,434
Money-market funds	718,265	4,601,948
Money-market funds – restricted	2,264,512	4,366,086
Investments	10,264,065	6,720,309
Total	\$ 14,001,107	\$ 16,787,204

The table on the following page identifies the investment types that are authorized by the California Government Code and the District’s investment policy. The table also identifies certain provisions of the District’s investment policy that address interest rate risk and concentration of credit risk.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 2 – CASH AND INVESTMENTS (continued)

This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5-years	None	None
District issued bonds	5-years	None	None
Government sponsored agency securities	5-years	None	None
Certificates-of-deposit	5-years	35%	None
Money-market funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Investments Authorized by Debt Agreements

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

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

Demand Deposits with Financial Institutions

At December 31, 2020 and 2019, the carrying amount of the District's demand deposits were \$735,924 and \$1,080,727, respectively, and the financial institution's balance were \$948,472 and \$1,125,611, respectively. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the District's balance for each year.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 2 – CASH AND INVESTMENTS (continued)

Money-Market Funds

Money-market funds are an investment whose objective is to earn modest investment earnings while maintaining a net asset value (NAV) of \$1 per share (which is the funds main goal – preservation of principal). A money-market fund's portfolio is typically comprised of short-term, or less than one year, securities representing high-quality, liquid debt and monetary instruments with minimal credit risk. Money-market funds are Level 1 investments (with quoted prices in active markets for identical assets) that are Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers money-market funds a cash equivalent due to their highly liquid nature and NAV of \$1 per share. As of December 31, 2020, the District held \$718,265 in unrestricted money-market funds and \$2,264,512 in restricted money-market funds. As of December 31, 2019, the District held \$4,601,948 in unrestricted money-market funds and \$4,366,086 in restricted money-market funds.

Local Agency Investment Fund (LAIF)

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

The District is a voluntary participant in LAIF. The fair value of the District's investment in this pool is reported at an amount based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis and it is Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of December 31, 2020, and 2019, the District held \$12,641 and \$12,434 in LAIF, respectively.

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

Investments

Investment maturities and credit ratings as of December 31, 2020, consisted of the following:

Type of Investments	Measurement Input	Credit Rating	Fair Value	Maturity
				12 Months or Less
U.S. Treasury notes	Level 1	Exempt	\$ 6,820,493	\$ 6,820,493
Certificates-of-deposit	Level 1	Not Rated	3,443,572	3,443,572
Total investments			\$ 10,264,065	\$ 10,264,065

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments (continued)

Investment maturities and credit ratings as of December 31, 2019, consisted of the following:

Type of Investments	Measurement Input	Credit Rating	Fair Value	Maturity	
				12 Months or Less	13 to 24 Months
U.S. Treasury notes	Level 1	Exempt	\$ 3,191,370	\$ 1,750,473	\$ 1,440,897
Certificates-of-deposit	Level 1	Not Rated	3,528,939	2,879,967	648,972
Total investments			<u>\$ 6,720,309</u>	<u>\$ 4,630,440</u>	<u>\$ 2,089,869</u>

Investments – Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed five-years. The District's did not hold any investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

Investments – Credit Risk

The District's investment policy limits investment choices to investment securities allowed by the California Government Code. At December 31, 2020 and 2019, all investments represented investment securities which were issued, registered and held by the District's agent in the District's name.

Investments – Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At December 31, 2020 and 2019, the District had the following investments that represented more than five percent of the Authority's net investment balance.

Investments greater than 5% for the year ended December 31, 2020, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Investments
U.S. Treasury note - January 15, 2021	\$ 1,547,772	15.08%
U.S. Treasury note - March 31, 2021	1,437,164	14.00%
U.S. Treasury note - May 31, 2021	1,206,192	11.75%
U.S. Treasury note - June 17, 2021	1,999,240	19.48%
U.S. Treasury note - August 15, 2021	630,125	6.14%
Total	<u>\$ 6,820,493</u>	<u>66.45%</u>

Investments greater than 5% for the year ended December 31, 2019, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Investments
U.S. Treasury note - January 31, 2020	\$ 1,750,473	26.05%
U.S. Treasury note - March 31, 2021	1,440,897	21.44%
Total	<u>\$ 3,191,370</u>	<u>47.49%</u>

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

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

The balances consisted of the following;

Description	Balance, Dec. 31, 2020	Balance, Dec. 31, 2019
Accounts receivable – water sales and services	\$ 2,339,547	\$ 1,737,318
Allowance for doubtful accounts	(35,570)	(35,570)
Accounts receivable – water sales and services, net	\$ 2,303,977	\$ 1,701,748

NOTE 4 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY

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

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

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

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

For 2020, the District reports its equity interest as of the date of the last audited financial statements of the Authority as of December 31, 2020, which was audited by our firm, whose report dated June 15, 2021 expressed an unmodified opinion on those financial statements.

For 2019, the District reports its equity interest as of the date of the last audited financial statements of the Authority as of December 31, 2019, which was audited by our firm, whose report dated June 15, 2020 expressed an unmodified opinion on those financial statements.

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2020 and 2019

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, 2020:

Palmdale Recycled Water Authority
Condensed Balance Sheet
December 31, 2020

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
Assets:			
Total assets	\$ 4,448,182	\$ 2,224,091	\$ 2,224,091
Liabilities:			
Total liabilities	45,086	22,543	22,543
Net position:			
Total net position	4,403,096	2,201,548	2,201,548
Total liabilities and net position	<u>\$ 4,448,182</u>	<u>\$ 2,224,091</u>	<u>\$ 2,224,091</u>

Palmdale Recycled Water Authority
Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2020

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
Operating revenues:			
Total operating revenues	\$ 656,993	\$ 328,496	\$ 328,497
Operating expenses:			
Total operating expenses	182,155	91,077	91,078
Operating income	474,838	237,419	237,419
Non-operating revenues:			
Total non-operating revenue	11,814	5,907	5,907
Change in net position	486,652	243,326	243,326
Net position:			
Beginning of year	3,916,444	1,958,222	1,958,222
End of year	<u>\$ 4,403,096</u>	<u>\$ 2,201,548</u>	<u>\$ 2,201,548</u>

Palmdale Recycled Water Authority
Condensed Statement of Cash Flows
For the Year Ended December 31, 2020

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
Cash flows from operating activities:			
Net cash provided by operating activities	\$ 565,905	\$ 282,952	\$ 282,953
Cash flows from investing activities:			
Net cash used in investing activities	(127,160)	(63,580)	(63,580)
Net increase in cash and cash equivalents	438,745	219,372	219,373
Cash and cash equivalents:			
Beginning of year	555,106	277,553	277,553
End of year	<u>\$ 993,851</u>	<u>\$ 496,925</u>	<u>\$ 496,926</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 474,838	\$ 237,419	\$ 237,419
Depreciation	53,407	26,703	26,704
Change in assets	5,556	2,778	2,778
Change in liabilities	32,104	16,052	16,052
Net cash provided by operating activities	<u>\$ 565,905</u>	<u>\$ 282,952</u>	<u>\$ 282,953</u>

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2020 and 2019

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, 2019:

Palmdale Recycled Water Authority
Condensed Balance Sheet
December 31, 2019

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
Assets:			
Total assets	\$ 3,929,426	\$ 1,964,713	\$ 1,964,713
Liabilities:			
Total liabilities	12,982	6,491	6,491
Net position:			
Total net position	3,916,444	1,958,222	1,958,222
Total liabilities and net position	<u>\$ 3,929,426</u>	<u>\$ 1,964,713</u>	<u>\$ 1,964,713</u>

Palmdale Recycled Water Authority
Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2019

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
Operating revenues:			
Total operating revenues	\$ 652,911	\$ 326,456	\$ 326,455
Operating expenses:			
Total operating expenses	99,948	49,974	49,974
Operating income	552,963	276,482	276,481
Non-operating revenues:			
Total non-operating revenue	26,902	13,451	13,451
Change in net position	579,865	289,933	289,932
Net position:			
Beginning of year	3,336,579	1,668,289	1,668,290
End of year	<u>\$ 3,916,444</u>	<u>\$ 1,958,222</u>	<u>\$ 1,958,222</u>

Palmdale Recycled Water Authority
Condensed Statement of Cash Flows
For the Year Ended December 31, 2019

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
Cash flows from operating activities:			
Net cash provided by operating activities	\$ 589,994	\$ 294,997	\$ 294,997
Cash flows from investing activities:			
Net cash used in investing activities	(691,658)	(345,829)	(345,829)
Net decrease in cash and cash equivalents	(101,664)	(50,832)	(50,832)
Cash and cash equivalents:			
Beginning of year	656,770	328,385	328,385
End of year	<u>\$ 555,106</u>	<u>\$ 277,553</u>	<u>\$ 277,553</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 552,963	\$ 276,481	\$ 276,482
Depreciation	53,407	26,704	26,703
Change in assets	(623)	(312)	(311)
Change in liabilities	(15,753)	(7,876)	(7,877)
Net cash provided by operating activities	<u>\$ 589,994</u>	<u>\$ 294,997</u>	<u>\$ 294,997</u>

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended December 31, 2020, was as follows:

Description	Balance, Jan. 1, 2020	Additions	Deletions/ Transfers	Balance, Dec. 31, 2020
Non-depreciable assets:				
Land and land rights	\$ 1,796,367	\$ -	\$ -	\$ 1,796,367
Construction-in-process	18,310,825	7,019,603	(1,270,726)	24,059,702
Total non-depreciable assets	20,107,192	7,019,603	(1,270,726)	25,856,069
Depreciable assets:				
Buildings, wells and distribution system	219,371,188	917,340	(8,822)	220,279,706
SWP – participation rights	84,816,508	5,238,207	-	90,054,715
Machinery and equipment	11,524,060	353,386	(203,535)	11,673,911
Total depreciable assets	315,711,756	6,508,933	(212,357)	322,008,332
Accumulated depreciation:				
Buildings, wells and distribution system	(127,571,953)	(4,845,911)	8,822	(132,409,042)
SWP – participation rights	(34,619,773)	(2,854,227)	-	(37,474,000)
Machinery and equipment	(10,920,966)	(299,057)	203,535	(11,016,488)
Total accumulated depreciation	(173,112,692)	(7,999,195)	212,357	(180,899,530)
Total depreciable assets, net	142,599,064	(1,490,262)	-	141,108,802
Total capital assets, net	\$ 162,706,256	\$ 5,529,341	\$ (1,270,726)	\$ 166,964,871

Capital asset activity for the year ended December 31, 2019, was as follows:

Description	Balance, Jan. 1, 2019	Additions	Deletions/ Transfers	Balance, Dec. 31, 2019
Non-depreciable assets:				
Land and land rights	\$ 1,784,357	\$ 12,010	\$ -	\$ 1,796,367
Construction-in-process	10,778,169	10,812,279	(3,279,623)	18,310,825
Total non-depreciable assets	12,562,526	10,824,289	(3,279,623)	20,107,192
Depreciable assets:				
Buildings, wells and distribution system	216,116,423	3,254,765	-	219,371,188
SWP – participation rights	80,580,387	4,236,121	-	84,816,508
Machinery and equipment	11,507,594	16,466	-	11,524,060
Total depreciable assets	308,204,404	7,507,352	-	315,711,756
Accumulated depreciation:				
Buildings, wells and distribution system	(122,677,431)	(4,894,522)	-	(127,571,953)
SWP – participation rights	(31,765,546)	(2,854,227)	-	(34,619,773)
Machinery and equipment	(10,558,226)	(362,740)	-	(10,920,966)
Total accumulated depreciation	(165,001,203)	(8,111,489)	-	(173,112,692)
Total depreciable assets, net	143,203,201	(604,137)	-	142,599,064
Total capital assets, net	\$ 155,765,727	\$ 10,220,152	\$ (3,279,623)	\$ 162,706,256

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (continued)

Construction-In-Process

The balance consists of the following projects:

Project Description	Balance Dec. 31, 2018	Balance Dec. 31, 2019	Balance Dec. 31, 2020
Sediment removal - Littlerock Dam	\$ 3,026,034	\$ 4,149,560	\$ 4,366,255
Palmdale Regional Groundwater Recharge Project	3,636,800	3,840,670	4,179,778
Grade control structure – Littlerock Dam	1,726,769	8,789,902	10,697,276
Meter Exchange Project	487,830	-	-
Spec 1703-ML Replacement 13th St E/Avenue R	229,174	-	-
Upper Armagosa Creek project	156,776	382,402	2,127,355
45th St Tank Site - Altitude Valve Replacement	123,584	123,584	123,584
Salt Silo Water Treatment Plant	106,679	-	-
Well 29 - Rehabilitation	105,783	-	-
Design and remodel District offices	-	-	595,268
Spec 1601-ML Replacement Avenue P/25th	12,309	61,978	432,350
Spec 1504-ML Replacement Avenue V5	26,857	40,433	302,306
Well 7 - Rehabilitation	-	-	206,800
2020 Large Meter/Vault Replacement Program	-	25,028	203,602
Various other minor projects <\$100,000	1,178,740	897,268	825,128
Total construction-in-process	<u>\$ 10,778,169</u>	<u>\$ 18,310,825</u>	<u>\$ 24,059,702</u>

State Water Project – Participation Rights

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

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

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

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

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (continued)

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

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

NOTE 6 – COMPENSATED ABSENCES

Summary changes to compensated absences balances for the year ended December 31, 2020, were as follows:

Balance, Jan. 1, 2020	Additions	Deletions	Balance, Dec. 31, 2020	Due Within One Year	Due in More Than One Year
\$ 536,443	\$ 681,447	\$ (526,577)	\$ 691,313	\$ 172,828	\$ 518,485

Summary changes to compensated absences balances for the year ended December 31, 2019, were as follows:

Balance, Jan. 1, 2019	Additions	Deletions	Balance, Dec. 31, 2019	Due Within One Year	Due in More Than One Year
\$ 473,828	\$ 662,722	\$ (600,107)	\$ 536,443	\$ 134,111	\$ 402,332

NOTE 7 – LONG-TERM DEBT

Changes in long-term debt for the year ended December 31, 2020, were as follows:

Long-Term Debt	Balance, Jan. 1, 2020	Additions/ Adjustments	Payments/ Amortization	Balance, Dec. 31, 2020	Current Portion	Non-Current Portion
Capital lease payable – 2017	\$ 429,317	\$ -	\$ (254,027)	\$ 175,290	\$ 87,040	\$ 88,250
Loan payable – 2012	5,128,609	-	(1,224,583)	3,904,026	1,261,002	2,643,024
Revenue bonds payable – 2013	40,685,000	(21,220,000)	(535,000)	18,930,000	565,000	18,365,000
Revenue bonds payable – discount	(102,142)	-	4,300	(97,842)	-	(97,842)
Revenue bonds payable – premium	2,527,695	-	(106,430)	2,421,265	-	2,421,265
Revenue bonds payable, net – 2013	43,110,553	(21,220,000)	(637,130)	21,253,423	565,000	20,688,423
Revenue bonds payable – 2018	12,805,000	-	-	12,805,000	-	12,805,000
Revenue bonds payable – premium	1,065,063	-	(37,044)	1,028,019	-	1,028,019
Revenue bonds payable, net – 2018	13,870,063	-	(37,044)	13,833,019	-	13,833,019
Revenue refunding bonds – non-taxable – 2020	-	9,008,523	(30,418)	8,978,105	12,501	8,965,604
Revenue refunding bonds – taxable – 2020	-	14,555,000	-	14,555,000	200,000	14,355,000
Revenue refunding bonds – 2020	-	23,563,523	(30,418)	23,533,105	212,501	23,320,604
Total long-term debt	\$ 62,538,542	\$ 2,343,523	\$ (2,183,202)	\$ 62,698,863	\$ 2,125,543	\$ 60,573,320

PALMDALE WATER DISTRICT
Notes to Financial Statements
 December 31, 2020 and 2019

NOTE 7 – LONG-TERM DEBT (continued)

Changes in long-term debt for the year ended December 31, 2019, were as follows:

Long-Term Debt	Balance, Jan. 1, 2019	Additions/ Adjustments	Payments/ Amortization	Balance, Dec. 31, 2019	Current Portion	Non-Current Portion
Capital lease payable – 2017	\$ 592,917	\$ -	\$ (163,600)	\$ 429,317	\$ 168,179	\$ 261,138
Loan payable – 2012	6,315,204	-	(1,186,595)	5,128,609	1,224,583	3,904,026
Revenue bonds payable – 2013	41,205,000	-	(520,000)	40,685,000	535,000	40,150,000
Revenue bonds payable – discount	(106,443)	-	4,301	(102,142)	-	(102,142)
Revenue bonds payable – premium	2,634,124	-	(106,429)	2,527,695	-	2,527,695
Revenue bonds payable, net – 2013	43,732,681	-	(622,128)	43,110,553	535,000	42,575,553
Revenue bonds payable – 2018	12,805,000	-	-	12,805,000	-	12,805,000
Revenue bonds payable – premium	1,102,110	-	(37,047)	1,065,063	-	1,065,063
Revenue bonds payable, net – 2018	13,907,110	-	(37,047)	13,870,063	-	13,870,063
Total long-term debt	\$ 64,547,912	\$ -	\$ (2,009,370)	\$ 62,538,542	\$ 1,927,762	\$ 60,610,780

A. Capital Lease Payable – 2017

On January 18, 2018, the District entered into an \$830,000 installment purchase agreement in order to acquire, construct, equip, and furnish certain improvements to its facilities. Capital lease payments consisting of principal and interest in the amount of \$89,477 are due every six months beginning in July, 2017 until January, 2022 at an annual interest rate of 2.78%.

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

Year	Principal	Interest	Total
2021	\$ 87,040	\$ 2,437	\$ 89,477
2022	88,250	1,227	89,477
Total	175,290	\$ 3,664	\$ 178,954
Less: current	(87,040)		
Total non-current	\$ 88,250		

B. Loan Payable – 2012

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

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

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 7 – LONG-TERM DEBT (continued)

B. Loan Payable – 2012 (continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,261,002	\$ 111,327	\$ 1,372,335
2022	1,300,396	71,933	1,372,329
2023	1,342,628	31,296	1,373,918
Total	3,904,026	\$ 214,556	\$ 4,118,582
Less: current	<u>(1,261,002)</u>		
Total non-current	<u>\$ 2,643,024</u>		

C. Revenue Bonds Payable

Certificates of Participation – 2004

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

Revenue Bonds Payable – 2013

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

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

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

In 2020, the District advanced refunded \$21,220,000 of debt service payments from 2031 to 2043 by issuing a non-taxable and a taxable issue.

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2020 and 2019***NOTE 7 – LONG-TERM DEBT (continued)****C. Revenue Bonds Payable (continued)**

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 565,000	\$ 1,783,475	\$ 2,348,475
2022	595,000	1,755,225	2,350,225
2023	620,000	1,725,475	2,345,475
2024	2,145,000	1,706,375	3,851,375
2025	2,210,000	1,641,025	3,851,025
2026-2030	12,795,000	6,472,225	19,267,225
Total	18,930,000	\$ 15,083,800	\$ 34,013,800
Less: current	(565,000)		
Total non-current	\$ 18,365,000		

Deferred Amount on Debt Defeasance, Net

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2020, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2020</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2020</u>
Deferred amount on debt defeasance, net	\$ 2,008,440	-	\$ (156,693)	\$ 1,851,747

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2019, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2019</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2019</u>
Deferred amount on debt defeasance, net	\$ 2,165,132	-	\$ (156,692)	\$ 2,008,440

Revenue Bonds Payable – 2018

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 7 – LONG-TERM DEBT (continued)

D. Revenue Refunding Bonds Payable (continued)

Revenue Bonds Payable – 2018 (continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ -	\$ 568,894	\$ 568,894
2022	250,000	568,893	818,893
2023	265,000	556,394	821,394
2024	275,000	545,794	820,794
2025	290,000	532,044	822,044
2026-2030	1,680,000	2,427,719	4,107,719
2031-2035	2,115,000	1,988,107	4,103,107
2036-2040	2,520,000	1,581,975	4,101,975
2041-2045	3,150,000	946,625	4,096,625
2046-2048	2,260,000	201,750	2,461,750
Total	12,805,000	<u>\$ 9,918,195</u>	<u>\$ 22,723,195</u>
Less: current	-		
Total non-current	<u>\$ 12,805,000</u>		

Revenue Refunding Bonds – Non-Taxable – 2020

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

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

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2020 and 2019*

NOTE 7 – LONG-TERM DEBT (continued)**D. Revenue Refunding Bonds Payable (continued)****Revenue Refunding Bonds – Non-Taxable – 2020 (continued)**

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 12,501	\$ 295,380	\$ 307,881
2022	12,913	294,968	307,881
2023	13,337	294,544	307,881
2024	13,776	294,105	307,881
2025	14,229	293,652	307,881
2026-2030	78,485	1,460,919	1,539,404
2031-2035	922,273	1,447,132	2,369,405
2036-2040	4,700,986	1,002,217	5,703,203
2041-2043	3,209,605	213,438	3,423,043
Total	8,978,105	\$ 5,596,355	\$ 14,574,460
Less: current	(12,501)		
Total non-current	\$ 8,965,604		

Revenue Refunding Bonds – Taxable – 2020

In November 2020, the Palmdale Water District Public Financing Authority (Authority) issued \$14,555,000 in Revenue Refunding Bonds – Taxable – Series 2020 (Bonds-2020 Taxable) with maturities from 2021 through 2034 with an interest rate coupon of 2.79% pursuant to an Indenture of Trust, dated as of November 3, 2020, by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The Bonds-2020 Taxable were issued: (i) to prepay the \$12,410,000 of District's outstanding Bonds-2013 principal from 2031 to 2034; (ii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the Bonds-2020 Taxable in case of default; and (iii) to pay the costs of issuing the Bonds-2020 Taxable \$268,953. The District has pledged 100% of its water revenues to collateralize the debt. Principal and interest payments are due in October of each year.

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

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

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 7 – LONG-TERM DEBT (continued)

D. Revenue Refunding Bonds Payable (continued)

Revenue Refunding Bonds – Taxable – 2020 (continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 200,000	\$ 355,570	\$ 555,570
2022	165,000	388,990	553,990
2023	165,000	387,727	552,727
2024	170,000	386,290	556,290
2025	170,000	384,305	554,305
2026-2030	890,000	1,874,390	2,764,390
2031-2034	12,795,000	932,539	13,727,539
Total	14,555,000	\$ 4,709,811	\$ 19,264,811
Less: current	(200,000)		
Total non-current	\$ 14,355,000		

Deferred Amount on Debt Defeasance, Net

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2020, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2020</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2020</u>
Deferred amount on debt defeasance, net	\$ -	\$ 1,795,890	\$ (35,890)	\$ 1,760,000

NOTE 8 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Summary

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

<u>Description</u>	<u>2020</u>	<u>2019</u>
OPEB related deferred outflows	\$ 3,350,850	\$ 860,122
Net other post-employment benefits obligation	16,479,807	12,965,981
OPEB related deferred inflows	1,035,319	1,187,572

Plan Description - Eligibility

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 8 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)

Plan Description - Benefits

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

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

Employees covered by benefit terms

At December 31, 2020 and 2019, the following employees were covered by the benefit terms:

<u>Plan Members</u>	<u>Covered Participants</u>	
	<u>2020</u>	<u>2019</u>
Active members	86	87
Inactives entitled to but not yet receiving benefits	-	-
Inactives currently receiving benefits	22	17
Total plan members	108	104

A. Total OPEB Liability

The District's total OPEB liabilities of \$16,479,807 and \$12,965,981 as of December 31, 2020 and 2019, respectively, were measured as of December 31, 2019 and 2018 (Measurement Dates), and were determined by an actuarial valuation as of December 31, 2018.

Actuarial assumptions and other inputs

The total OPEB liability in the December 31, 2019 and 2018 (Measurement Dates) actuarial valuation roll-forwards were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>2020</u>	<u>2019</u>
Discount Rate	2.74%	4.09%
Inflation	2.75%	2.75%
Salary Increases	3.0% per annum, in aggregate	3.0% per annum, in aggregate
Investment Rate of Return	2.74%	4.09%
Mortality Rate	CalPERS Membership Data	CalPERS Membership Data
Pre-Retirement Turnover	CalPERS Membership Data	CalPERS Membership Data
Healthcare Trend Rate	Non-Medicare 7.5% to Medicare 6.5%	Non-Medicare 7.5% to Medicare 6.5%

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 8 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)

A. Total OPEB Liability (continued)

Mortality, Retirement & Turnover Assumptions

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

Discount Rate

The discount rate used to measure the total OPEB liability was 2.74% as of December 31, 2019 and 4.09% as of December 31, 2018. The projection of cash flows used to determine the discount rate assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. The Bond Buyer 20 Bond Index was used.

B. Changes in the Total OPEB Liability

The following table is based on the roll-forward of the December 31, 2019 (Measurement Date) actuarial valuation:

	Total OPEB Liability
Balance at January 1, 2020 (MD Jan. 1, 2019)	\$ 12,965,681
Changes for the year:	
Service cost	459,128
Interest	542,470
Assumption changes	2,835,458
Benefit payments	(322,930)
Net changes	3,514,126
Balance at December 31, 2020 (MD Dec. 31, 2019)	\$ 16,479,807

The following table is based on the roll-forward of the December 31, 2018 (Measurement Date) actuarial valuation:

	Total OPEB Liability
Balance at January 1, 2019 (MD Jan. 1, 2018)	\$ 13,598,136
Changes for the year:	
Service cost	533,709
Interest	480,852
Assumption changes	(1,339,825)
Benefit payments	(307,191)
Net changes	(632,455)
Balance at December 31, 2019 (MD Dec. 31, 2018)	\$ 12,965,681

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 8 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)

B. Changes in the Total OPEB Liability (continued)

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

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

The following table is based on the December 31, 2019 (Measurement Date) actuarial valuation:

1% Decrease	Discount Rate	1% Increase
1.74%	2.74%	3.74%
<u>\$ 19,422,961</u>	<u>\$ 16,479,807</u>	<u>\$ 14,120,365</u>

The following table is based on the December 31, 2018 (Measurement Date) actuarial valuation:

1% Decrease	Discount Rate	1% Increase
3.09%	4.09%	5.09%
<u>\$ 15,108,233</u>	<u>\$ 12,965,681</u>	<u>\$ 11,228,900</u>

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

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

The following table is based on the December 31, 2019 (Measurement Date) actuarial valuation:

1% Decrease	Healthcare Cost Current Trend	1% Increase
<u>\$ 13,661,499</u>	<u>\$ 16,479,807</u>	<u>\$ 20,151,057</u>

The following table is based on the December 31, 2018 (Measurement Date) actuarial valuation:

1% Decrease	Healthcare Cost Current Trend	1% Increase
<u>\$ 10,999,479</u>	<u>\$ 12,965,681</u>	<u>\$ 15,474,034</u>

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 8 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)

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

For the year ended December 31, 2020 and 2019, the District recognized OPEB expense/(credit) of \$1,250,555 and \$941,307, respectively.

At December 31, 2020, the District reported \$3,350,850 of deferred outflows of resources and \$1,035,319 of deferred inflows of resources for related to the net OPEB obligation as follows:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date of the net OPEB liability	\$ 379,410	\$ -
Changes in assumptions	<u>2,971,440</u>	<u>(1,035,319)</u>
Total	<u>\$ 3,350,850</u>	<u>\$ (1,035,319)</u>

At December 31, 2020, the District reported \$379,410 of deferred outflows of resources for employer contributions made subsequent to the measurement date which will be used to reduce the net OPEB liability balance in the coming year. Amortization of the remaining deferred outflows/(inflows) of resources related to the net OPEB obligation is as follows:

	<u>Amount</u>
Year Ended June 30:	
2021	\$ 248,957
2022	248,957
2023	248,957
2024	248,957
2025	248,957
Thereafter	<u>691,336</u>
Total	<u>\$ 1,936,121</u>

At December 31, 2019, the District reported \$860,121 of deferred outflows of resources and \$1,187,572 of deferred inflows of resources for related to the net OPEB obligation as follows:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date of the net OPEB liability	\$ 322,930	\$ -
Changes in assumptions	<u>537,192</u>	<u>(1,187,572)</u>
Total	<u>\$ 860,122</u>	<u>\$ (1,187,572)</u>

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 8 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)

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

At December 31, 2019, the District reported \$322,930 of deferred outflows of resources for employer contributions made subsequent to the measurement date which will be used to reduce the net OPEB liability balance in the coming year. Amortization of the remaining deferred outflows/(inflows) of resources related to the net OPEB obligation is as follows:

	<u>Amount</u>
Year Ended June 30:	
2020	\$ (73,254)
2021	(73,254)
2022	(73,254)
2023	(73,254)
2024	(73,254)
Thereafter	<u>(284,110)</u>
Total	<u>\$ (650,380)</u>

NOTE 9 – PENSION PLAN

Summary

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

<u>Description</u>	<u>2020</u>	<u>2019</u>
Pension related deferred outflows	\$ 2,055,953	\$ 2,232,537
Net pension liability	11,573,771	10,691,338
Pension related deferred inflows	264,680	613,784

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by agencies of the State of California known as the California Public Employees' Retirement System (CalPERS), or "The Plan". The net pension liability balances have a Measurement Date of June 30, 2020 and June 30, 2019, respectively, which are rolled-forward for the District's fiscal years ended December 31, 2020 and December 31, 2019.

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 9 – PENSION PLAN (continued)

A. General Information about the Pension Plan

The Plan

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

	Miscellaneous Plans	
	Classic Tier 1	PEPRA Tier 2
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required member contribution rates	6.902%	6.250%
Required employer contribution rates – FY 2020	10.221%	6.985%
Required employer contribution rates – FY 2019	9.409%	6.533%

Plan Description, Benefits Provided and Employees Covered

The Plan is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS). The District contributes to the miscellaneous risk pool within the Plan. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2019 Annual Actuarial Valuation Report. This report is a publicly available valuation report that can be obtained at CalPERS website under Forms and Publications.

The California Public Employees’ Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement benefits are applied, and places compensation limits on members. As a result of these changes since PEPRA’s adoption in January 2013, the District now has two unique CalPERS plans to which it makes contributions within the miscellaneous risk pool: the “classic” plan, which includes covered employees who have established membership in a CalPERS plan prior to January 2013, as well as the “PEPRA/new” plan, which includes covered employees who have established membership in a CalPERS plan after January 2013. Each plan or membership contains unique benefits levels, which are enumerated in the June 30, 2020 and 2019 Annual Actuarial Valuation Reports.

At June 30, 2020, the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Active members	59	26	85
Transferred and terminated members	44	4	48
Retired members and beneficiaries	54	-	54
Total plan members	157	30	187

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 9 – PENSION PLAN (continued)

A. General Information about the Pension Plan (continued)

Plan Description, Benefits Provided and Employees Covered (continued)

At June 30, 2019, the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Active members	61	21	82
Transferred and terminated members	43	2	45
Retired members and beneficiaries	53	-	53
Total plan members	157	23	180

Contribution Description

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

Contributions for the year ended December 31, 2020, (Measurement Date June 30, 2020) were as follows:

Contribution Type	Total
Contributions – employer	\$ 1,493,530
Contributions – members	522,632
Total contributions	\$ 2,016,162

Contributions for the year ended December 31, 2019, (Measurement Date June 30, 2019) were as follows:

Contribution Type	Total
Contributions – employer	\$ 1,268,063
Contributions – members	489,579
Total contributions	\$ 1,757,642

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

For the years ended December 31, 2020 and 2019, the contributions recognized as part of pension expense for the Plan were \$1,493,530 and \$1,268,063.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 9 – PENSION PLAN (continued)

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

Proportionate Share of Net Pension Liability and Pension Expense

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

Changes in the net pension liability for the year ended December 31, 2020, 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>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2019 (Measurement Date)	\$ 44,392,170	\$ 33,700,832	\$ 10,691,338
Balance as of June 30, 2020 (Measurement Date)	\$ 47,806,269	\$ 36,232,498	\$ 11,573,771
Change in Plan Net Pension Liability	\$ 3,414,099	\$ 2,531,666	\$ 882,433

Changes in the net pension liability for the year ended December 31, 2019, 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>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2018 (Measurement Date)	\$ 42,065,728	\$ 32,256,270	\$ 9,809,458
Balance as of June 30, 2019 (Measurement Date)	\$ 44,392,170	\$ 33,700,832	\$ 10,691,338
Change in Plan Net Pension Liability	\$ 2,326,442	\$ 1,444,562	\$ 881,880

For the year ended December 31, 2020 and 2019 pension expense was \$1,509,083 and \$1,778,968, respectively.

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

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation dates (June 30, 2019 and 2018). 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, 2020 and 2019). 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, 2020 and 2019 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY 2019-2020 and FY 2018-2019).
- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 9 – PENSION PLAN (continued)

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

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

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

As of December 31, 2020 and 2019, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$11,573,771 and \$10,691,338, respectively.

The District’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of December 31, 2019 and 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018 and 2017 rolled forward to December 31, 2019 and 2018 using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District’s proportionate share of the net pension liability for the June 30, 2020, measurement date was as follows:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending December 31, 2020	Fiscal Year Ending December 31, 2019	
Measurement Date	June 30, 2020	June 30, 2019	
Percentage of Risk Pool Net Pension Liability	0.27439%	0.26698%	0.00740%
Percentage of Plan (PERF C) Net Pension Liability	0.10637%	0.10434%	0.00204%

The District’s proportionate share of the net pension liability for the June 30, 2019, measurement date was as follows:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending December 31, 2019	Fiscal Year Ending December 31, 2018	
Measurement Date	June 30, 2019	June 30, 2018	
Percentage of Risk Pool Net Pension Liability	0.26698%	0.26029%	0.00669%
Percentage of Plan (PERF C) Net Pension Liability	0.10434%	0.10180%	0.00254%

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 9 – PENSION PLAN (continued)

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

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

The total amount of \$799,171 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. At December 31, 2020, 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	\$ 799,171	\$ -
Difference between actual and proportionate share of employer contributions	-	(182,131)
Adjustment due to differences in proportions	316,534	-
Differences between expected and actual experience	596,431	-
Differences between projected and actual earnings on pension plan investments	343,817	-
Changes in assumptions	-	(82,549)
Total Deferred Outflows/(Inflows) of Resources	\$ 2,055,953	\$ (264,680)

The total amount of \$732,837 reported as deferred outflows of resources related to contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended December 31, 2020. At December 31, 2019, 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	\$ 732,837	\$ -
Difference between actual and proportionate share of employer contributions	-	(188,609)
Adjustment due to differences in proportions	247,330	-
Differences between expected and actual experience	742,558	(57,533)
Differences between projected and actual earnings on pension plan investments	-	(186,918)
Changes in assumptions	509,812	(180,724)
Total Deferred Outflows/(Inflows) of Resources	\$ 2,232,537	\$ (613,784)

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 9 – PENSION PLAN (continued)

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

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

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2020, will be amortized to pension expense in future periods as follows:

Amortization Period	Deferred
Fiscal Year Ended December 31	Outflows/(Inflows)
	of Resources
2021	\$ 176,692
2022	370,610
2023	279,896
2024	164,904
2025	-
Total	\$ 992,102

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2019, will be amortized to pension expense in future periods as follows:

Amortization Period	Deferred
Fiscal Year Ended December 31	Outflows/(Inflows)
	of Resources
2020	\$ 821,164
2021	(81,052)
2022	108,033
2023	37,771
2024	-
Total	\$ 885,916

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2020 and 2019 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2019 and 2018, total pension liability. The December 31, 2020 and 2019, total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry age normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

PALMDALE WATER DISTRICT
Notes to Financial Statements
 December 31, 2020 and 2019

NOTE 9 – PENSION PLAN (continued)

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

Discount Rate

The discount rate used to measure the total pension liability for PERF B was 7.15%. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF B. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS' website.

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

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

<u>Investment Type</u>	<u>Assumed Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	50%	4.80%	5.98%
Global Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Assets	13%	3.75%	4.93%
Liquidity	1%	0.00%	-0.92%
	<u>100%</u>		

¹ An expected inflation rate-of-return of 2.5% is used for years 1-10.

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

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

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

Changes in the discount rate for the year ended June 30, 2020, was as follows:

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1% 6.15%</u>	<u>Current Discount Rate 7.15%</u>	<u>Discount Rate + 1% 8.15%</u>
CalPERS – Miscellaneous Plan	<u>\$ 17,935,619</u>	<u>\$ 11,573,771</u>	<u>\$ 6,317,175</u>

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 9 – PENSION PLAN (continued)

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

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

Changes in the discount rate for the year ended June 30, 2019, was as follows:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1%	Current Discount	Discount Rate + 1%
	6.15%	Rate 7.15%	8.15%
CalPERS – Miscellaneous Plan	\$ 16,662,221	\$ 10,691,338	\$ 5,762,797

Pension Plan Fiduciary Net Position

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

C. Payable to the Pension Plans

At December 31, 2020 and 2019, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the year ended December 31, 2020 and 2019.

NOTE 10 – NET POSITION – NET INVESTMENT IN CAPITAL ASSETS

The District's net -position – net investment in capital assets for the years ended December 31, 2020 and 2019 were calculated as follows:

Description	Balance Dec. 31, 2020	Balance Dec. 31, 2019
Restricted – cash and cash equivalents		
– revenue bond proceeds for construction	\$ 2,264,512	\$ 4,366,086
Capital assets – not being depreciated	25,856,069	20,107,192
Capital assets, net – being depreciated	141,108,802	142,599,064
Deferred loss on debt defeasance, net	3,611,747	2,008,440
Capital lease payable – current	(87,040)	(168,179)
Loan payable – current	(1,261,002)	(1,224,583)
Revenue bonds payable – current	(777,501)	(535,000)
Capital lease payable	(88,250)	(261,138)
Loan payable	(2,643,024)	(3,904,026)
Revenue bonds payable, net	(57,842,046)	(56,445,616)
Total net investment in capital assets	\$ 110,142,267	\$ 106,542,240

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 11 – NET POSITION – UNRESTRICTED (DEFICIT)

As of December 31, 2020 and 2019, the District has an unrestricted net position deficit of (\$15,597,356) and (\$13,320,683). Due to the nature of the deficit from the implementation of GASB Statements No. 68 & 75 in the past fiscal years, the District will continue to make its actuarial determined contributions to CalPERS and annually review its outstanding net pension and net OPEB obligations funding requirements for future periods to reduce its deficit position.

NOTE 12 – RISK MANAGEMENT

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

A. Entity	ACWA-JPIA
B. Purpose	To pool member contributions and realize the
C. Participants	As of September 30, 2020 – 396 member districts
D. Governing board	Nine representatives employed by members
E. District payments for FY 2020:	
Property policy	\$62,654
Auto/General liability	\$171,544
F. Condensed financial information	September 30, 2020
Audit signed	April 15, 2021
Statement of financial position:	Sept. 30, 2020
Total assets	<u>\$ 237,525,073</u>
Deferred outflows	<u>1,054,750</u>
Total liabilities	<u>113,075,164</u>
Deferred inflows	<u>1,817,452</u>
Net position	<u><u>\$ 123,687,207</u></u>
Statement of revenues, expenses and changes in net position:	
Total revenues	\$ 197,639,443
Total expenses	<u>(172,886,738)</u>
Change in net position	24,752,705
Beginning - net position	<u>98,934,502</u>
Ending - net position	<u><u>\$ 123,687,207</u></u>
G. Member agencies share of year-end financial position	Not Calculated

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 12 – RISK MANAGEMENT (continued)

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. At December 31, 2020 and 2019, the District participated in the self-insured liability, property, and worker's compensation insurance programs provided by ACWA/JPIA through AON Risk Insurance Services West, Inc. as follows:

General and Auto Liability

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

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

Property

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

The following is an overview of the program:

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

Workers' Compensation

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

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

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

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending December 31, 2020, 2019, and 2018. 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, 2020, 2019, and 2018.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 13 – DEFERRED COMPENSATION SAVINGS PLAN

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

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

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

NOTE 14 – 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>
2021	\$ 7,481,343
2022	7,393,176
2023	7,772,012
2024	7,740,754
2025	7,872,448

As of December 31, 2020, the District has expended approximately \$123,574,668 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	\$85,437,147
Delta water charges	27,334,170
Off-aqueduct power facilities	64,604
Revenue bond surcharge	4,348,555
Total	<u>\$117,184,476</u>

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 14 – COMMITMENTS AND CONTINGENCIES (continued)

Bay/Delta Regulatory and Planning Activities

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

Construction Contracts

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

The District has committed to approximately \$2,576,612 to complete the open construction contracts as of December 31, 2020. 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	\$ 4,366,255	\$ 1,133,745	\$ 5,500,000
Littlerock Creek Groundwater Recharge Project	4,179,778	820,222	5,000,000
Upper Armagosa Creek project	2,127,355	622,645	2,750,000
Total	\$ 10,673,388	\$ 2,576,612	\$ 13,250,000

Other Litigation

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

NOTE 15 – CURRENT AND SUBSEQUENT EVENTS

At the end of the first quarter of calendar year 2020, the United States and global economy suffered a major decline due to the impact of the COVID-19 virus. This economic decline may affect the District's operations and investment earnings for the remainder of calendar year 2020 and beyond. However, the potential impact to the District is unknown at this time.

Required Supplementary Information

PALMDALE WATER DISTRICT*Schedule of Proportionate Share of the Net Pension Liability
For the Years Ended December 31, 2020 and 2019***Last Ten Fiscal Years*****California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

Measurement Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability
June 30, 2014	0.10201%	\$ 6,347,533	\$ 6,027,591	105.31%	79.93%
June 30, 2015	0.09802%	6,727,907	6,377,315	105.50%	79.62%
June 30, 2016	0.10037%	8,685,489	6,778,010	128.14%	75.59%
June 30, 2017	0.10166%	10,081,661	6,482,822	155.51%	74.68%
June 30, 2018	0.10180%	9,809,458	6,735,592	145.64%	76.68%
June 30, 2019	0.10434%	10,691,338	7,391,878	144.64%	75.92%
June 30, 2020	0.10637%	11,573,771	7,675,493	150.79%	75.79%

Notes to Schedule:**Benefit Changes:**

There were no changes in benefits.

Changes in Assumptions:**For fiscal years June 30, 2015 and June 30, 2016:**

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

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

There were no changes in assumptions.

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

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

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

There were no significant changes in assumptions.

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

There were no significant changes in assumptions.

*Fiscal year 2014 was the first measurement date year of implementation; therefore, only seven years are shown.

PALMDALE WATER DISTRICT
Schedule of Pension Contributions
For the Years Ended December 31, 2020 and 2019

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 805,370	\$ (805,370)	\$ -	\$ 6,027,591	13.36%
2015	819,205	(819,205)	-	6,377,315	12.85%
2016	945,678	(945,678)	-	6,778,010	13.95%
2017	1,026,759	(1,026,759)	-	6,482,822	15.84%
2018	1,178,448	(1,178,448)	-	6,735,592	17.50%
2019	1,373,023	(1,373,023)	-	7,391,878	18.57%
2020	1,559,864	(1,559,864)	-	7,675,493	20.32%

Notes to Schedule:

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

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

*Fiscal year 2014 was the first measurement date year of implementation; therefore, only seven years are shown.

PALMDALE WATER DISTRICT

*Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Years Ended December 31, 2020 and 2019*

Fiscal Year Ended	Last Ten Fiscal Years*		
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Measurement Date	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Total OPEB liability:			
Service cost	\$ 459,128	\$ 533,709	\$ 471,435
Interest	542,470	480,852	475,129
Changes of assumptions	2,835,458	(1,339,825)	695,190
Benefit payments	(322,930)	(307,191)	(283,520)
Net change in total OPEB liability	3,514,126	(632,455)	1,358,234
Total OPEB liability - beginning	12,965,681	13,598,136	12,239,902
Total OPEB liability - ending	\$ 16,479,807	\$ 12,965,681	\$ 13,598,136
Covered-employee payroll	\$ 8,492,001	\$ 8,067,557	\$ 7,459,193
District's net OPEB liability as a percentage of covered-employee payroll	194.06%	160.71%	182.30%

Notes to Schedule:

Benefit Changes:

Measurement Date December 31, 2017 – There were no changes in benefits

Measurement Date December 31, 2018 – There were no changes in benefits

Measurement Date December 31, 2018 – There were no changes in benefits

Changes in Assumptions:

Measurement Date December 31, 2017 – Discount rate was updated to 3.44% from 3.78% as of December 31, 2016

Measurement Date December 31, 2018 – Discount rate was updated to 4.09% from 3.44% as of December 31, 2017

Measurement Date December 31, 2019 – Discount rate was updated to 2.74% from 4.09% as of December 31, 2018

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

PALMDALE WATER DISTRICT

Schedule of OPEB Contributions

For the Years Ended December 31, 2020 and 2019

Last Ten Fiscal Years*

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

Fiscal Year Ended	<u>Dec. 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Contributions made	\$ 305,410	\$ 245,893	\$ 240,695
Implied subsidy	74,000	77,037	66,496
Total contributions	<u>\$ 379,410</u>	<u>\$ 322,930</u>	<u>\$ 307,191</u>

Notes to Schedule:

Valuation Date	Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2018
Methods and Assumptions Used to Determine Contribution Rates:			
Discount rate	2.74%	4.09%	3.44%
Inflation	2.75%	2.75%	2.75%
Payroll increases	3.00%	3.00%	3.00%
Mortality	1	1	1
Disability	1	1	1
Retirement	1	1	1
Termination	1	1	1
Healthcare trend rates	2	2	2

(1) CalPERS 1997-2015 Experience Study

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

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

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

Supplementary Information

PALMDALE WATER DISTRICT
Schedules of Debt Service Net Revenues Coverage
For the Year Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Total revenues:		
Operating revenues	\$ 27,553,220	\$ 25,165,648
Non-operating revenues	8,379,165	8,437,701
Capital contributions – capital improvement fees and grants	<u>1,235,438</u>	<u>633,286</u>
Total revenues	<u>37,167,823</u>	<u>34,236,635</u>
Total expenses:		
Operating expenses before depreciation expense	<u>25,282,387</u>	<u>25,091,896</u>
Non-operating expenses	5,731,408	5,465,241
Less debt service items:		
Interest expense – long-term debt	<u>(2,478,228)</u>	<u>(2,611,014)</u>
Total non-operating expenses adjusted for debt service items	<u>3,253,180</u>	<u>2,854,227</u>
	<u>28,535,567</u>	<u>27,946,123</u>
Net revenues available for debt service	<u>\$ 8,632,256</u>	<u>\$ 6,290,512</u>
Debt service for the fiscal year	<u>\$ 4,505,466</u>	<u>\$ 4,355,130</u>
Debt service net revenues coverage ratio	<u>192%</u>	<u>144%</u>

Other Independent Auditors' Reports



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

Board of Directors
Palmdale Water District
Palmdale, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palmdale Water District (District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 21, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Murrieta, California
June 21, 2021