



# PALMDALE WATER DISTRICT

## A CENTURY OF SERVICE

June 24, 2021

### BOARD OF DIRECTORS

AMBERROSE MERINO

Division 1

DON WILSON

Division 2

GLORIA DIZMANG

Division 3

KATHY MAC LAREN-GOMEZ

Division 4

VINCENT DINO

Division 5

## AGENDA FOR A SPECIAL MEETING OF THE FINANCE COMMITTEE OF THE PALMDALE WATER DISTRICT TO BE HELD AT 2029 EAST AVENUE Q, PALMDALE OR VIA TELECONFERENCE Committee Members: Don Wilson-Chair, Gloria Dizmang

**FOR THE PUBLIC: VIA TELECONFERENCE ONLY**  
**DIAL-IN NUMBER: 571-748-4021 ATTENDEE PIN: 797-833-902#**  
**Submit Public Comments at: <https://www.gomeet.com/797-833-902>**

**TUESDAY, JUNE 29, 2021  
2:00 p.m.**

DENNIS D. LaMOREAUX

General Manager

ALESHIRE & WYNDER LLP

Attorneys

**NOTE:** To comply with the Americans with Disabilities Act, to participate in any Board meeting please contact Dawn Deans at 661-947-4111 x1003 at least 48 hours prior to a Board meeting to inform us of your needs and to determine if accommodation is feasible.

Agenda item materials, as well as materials related to agenda items submitted after distribution of the agenda packets, are available for public review at the District's office located at 2029 East Avenue Q, Palmdale (Government Code Section 54957.5). Please call Dawn Deans at 661-947-4111 x1003 for public review of materials.

**PUBLIC COMMENT GUIDELINES:** The prescribed time limit per speaker is three-minutes. Please refrain from public displays or outbursts such as unsolicited applause, comments, or cheering. Any disruptive activities that substantially interfere with the ability of the District to carry out its meeting will not be permitted, and offenders will be requested to leave the meeting. (PWD Rules and Regulations, Appendix DD, Sec. IV.A.)

Each item on the agenda shall be deemed to include any appropriate motion, resolution, or ordinance to take action on any item.

- 1) Roll call.
- 2) Adoption of agenda.
- 3) Public comments for non-agenda items.
- 4) Action Items: (The public shall have an opportunity to comment on any action item as each item is considered by the Committee prior to action being taken.)



- 4.1) Consideration and possible action on a recommendation for presentation, consideration, and possible action on receiving and filing of 2020 Annual Financial Report. (Finance Manager Williams/Paul Kaymark, Nigro & Nigro)
- 5) Reports.
  - 5.1) Finance Manager Williams:
    - a) S&P rating adjustment rationale.
- 6) Board members' requests for future agenda items.
- 7) Adjournment.



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DENNIS D. LaMOREAUX,  
General Manager

DDL/dd

**PALMDALE  
WATER DISTRICT  
BOARD MEMORANDUM**

**DATE:** June 23, 2021 **June 29, 2021**  
**TO:** FINANCE COMMITTEE **Special Committee Meeting**  
**FROM:** Michael Williams, Finance Manager/CFO  
**VIA:** Mr. Dennis LaMoreaux, General Manager  
**RE:** ***AGENDA ITEM 4.1 – CONSIDERATION AND POSSIBLE ACTION ON A RECOMMENDATION FOR PRESENTATION, CONSIDERATION, AND POSSIBLE ACTION ON RECEIVING AND FILING OF 2020 ANNUAL FINANCIAL REPORT. (FINANCE MANAGER WILLIAMS/PAUL KAYMARK, NIGRO & NIGRO)***

**Recommendation:**

Staff recommends the Finance Committee receive and file the annual basic financial statements with independent auditors' report (draft) for year ended December 31, 2020 and recommend same to the full Board of Directors.

**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 (Page 5).
- 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 (Page 7).
- 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 (Page 8).
- 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 (Page 14).

**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.

FINANCE COMMITTEE  
PALMDALE WATER DISTRICT

VIA: Mr. Dennis LaMoreaux, General Manager

June 23, 2021

- Billed water consumption for the year ended December 31, 2020 was at 16,556-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.

**Strategic Plan Initiative/Mission Statement:**

This item is under Strategic Initiative No. 4 – Financial Health and Stability.

This item directly relates to the District's Mission Statement.

**Budget:**

This item has no budget impact.

**Supporting Documents:**

- Draft 2020 Annual Financial Report prepared by Nigro & Nigro
- 6-year analysis of net position

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





# **PALMDALE WATER DISTRICT**

*For the Years Ended December 31, 2020 and 2019*

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## ***Financial Section***

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## 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.

Murrieta, California

June 21, 2020

## **PALMDALE WATER DISTRICT**

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

*For the Years Ended December 31, 2020 and 2019*

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Management's Discussion and Analysis (MD&A) offers readers of Palmdale Water District's financial statements a narrative overview of the District's financial activities for the years ended December 31, 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*

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## **REQUIRED FINANCIAL STATEMENTS**

### **Balance Sheets**

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

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#### 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
<b>Assets:</b>					
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
<b>Total assets</b>	<b>191,641,491</b>	<b>189,062,936</b>	<b>2,578,555</b>	<b>188,730,535</b>	<b>332,401</b>
<b>Deferred outflows of resources</b>	<b>9,018,550</b>	<b>5,101,099</b>	<b>3,917,451</b>	<b>5,530,101</b>	<b>(429,002)</b>
<b>Total assets and deferred outflows</b>	<b>\$ 200,660,041</b>	<b>\$ 194,164,035</b>	<b>\$ 6,496,006</b>	<b>\$ 194,260,636</b>	<b>\$ (96,601)</b>
<b>Liabilities:</b>					
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)
<b>Total liabilities</b>	<b>99,313,583</b>	<b>93,882,900</b>	<b>5,430,683</b>	<b>94,666,502</b>	<b>(783,602)</b>
<b>Deferred inflows of resources</b>	<b>4,599,999</b>	<b>5,101,356</b>	<b>(501,357)</b>	<b>3,885,837</b>	<b>1,215,519</b>
<b>Net position:</b>					
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)
<b>Total net position</b>	<b>96,746,459</b>	<b>95,179,779</b>	<b>1,566,680</b>	<b>95,708,297</b>	<b>(528,518)</b>
<b>Total liabilities, deferred inflows and net position</b>	<b>\$ 200,660,041</b>	<b>\$ 194,164,035</b>	<b>\$ 6,496,006</b>	<b>\$ 194,260,636</b>	<b>\$ (96,601)</b>

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, 2018, 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**

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

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
<b>Operating revenues:</b>					
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
<b>Total operating revenues</b>	<b>27,553,220</b>	<b>25,165,648</b>	<b>2,387,572</b>	<b>24,884,078</b>	<b>281,570</b>
<b>Non-operating:</b>					
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)
<b>Total non-operating</b>	<b>8,379,165</b>	<b>8,437,701</b>	<b>(58,536)</b>	<b>8,483,651</b>	<b>(45,950)</b>
<b>Total revenues</b>	<b>\$ 35,932,385</b>	<b>\$ 33,603,349</b>	<b>\$ 2,329,036</b>	<b>\$ 33,367,729</b>	<b>\$ 235,620</b>

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
<b>Operating expenses:</b>					
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
<b>Operating expenses before overhead absorption</b>	<b>25,282,387</b>	<b>25,091,896</b>	<b>190,491</b>	<b>24,435,835</b>	<b>656,061</b>
Overhead absorption	(557,620)	(1,049,246)	491,626	(103,353)	(945,893)
<b>Operating expenses before depreciation</b>	<b>24,724,767</b>	<b>24,042,650</b>	<b>682,117</b>	<b>24,332,482</b>	<b>(289,832)</b>
Depreciation	5,144,968	5,257,262	(112,294)	5,353,052	(95,790)
<b>Total operating expenses</b>	<b>29,869,735</b>	<b>29,299,912</b>	<b>569,823</b>	<b>29,685,534</b>	<b>(385,622)</b>
<b>Non-operating expenses:</b>					
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
<b>Total non-operating</b>	<b>5,731,408</b>	<b>5,465,241</b>	<b>266,167</b>	<b>5,361,162</b>	<b>104,079</b>
<b>Total expenses</b>	<b>\$ 35,601,143</b>	<b>\$ 34,765,153</b>	<b>\$ 835,990</b>	<b>\$ 35,046,696</b>	<b>\$ (281,543)</b>

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*

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#### **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**

<b>Capital assets:</b>	<b>Balance, Dec. 31, 2020</b>	<b>Balance, Dec. 31, 2019</b>	<b>Balance, Dec. 31, 2018</b>
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	<u>(180,899,530)</u>	<u>(173,112,692)</u>	<u>(165,001,203)</u>
<b>Total capital assets, net</b>	<b><u>\$ 166,964,871</u></b>	<b><u>\$ 162,706,256</u></b>	<b><u>\$ 155,765,727</u></b>

#### **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**

<b>Long-term debt:</b>	<b>Balance, Dec. 31, 2020</b>	<b>Balance, Dec. 31, 2019</b>	<b>Balance, Dec. 31, 2018</b>
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	<u>14,555,000</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 62,698,863</u></b>	<b><u>\$ 62,538,542</u></b>	<b><u>\$ 64,547,912</u></b>

## **PALMDALE WATER DISTRICT**

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

*For the Years Ended December 31, 2020 and 2019*

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#### **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 16,556-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*

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<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
<b>Current assets:</b>		
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
<b>Total current assets</b>	<b>20,210,560</b>	<b>20,032,372</b>
<b>Non-current assets:</b>		
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
<b>Total non-current assets</b>	<b>171,430,931</b>	<b>169,030,564</b>
<b>Total assets</b>	<b>191,641,491</b>	<b>189,062,936</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
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
<b>Total deferred outflows of resources</b>	<b>9,018,550</b>	<b>5,101,099</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 200,660,041</b>	<b>\$ 194,164,035</b>

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

<b>LIABILITIES</b>	<b>2020</b>	<b>2019</b>
<b>Current liabilities:</b>		
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
<b>Total current liabilities</b>	<b>10,168,200</b>	<b>9,212,469</b>
<b>Non-current liabilities:</b>		
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
<b>Total non-current liabilities</b>	<b>89,145,383</b>	<b>84,670,431</b>
<b>Total liabilities</b>	<b>99,313,583</b>	<b>93,882,900</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
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
<b>Total deferred inflows of resources</b>	<b>4,599,999</b>	<b>5,101,356</b>
<b>NET POSITION</b>		
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)
<b>Total net position</b>	<b>96,746,459</b>	<b>95,179,779</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 200,660,041</b>	<b>\$ 194,164,035</b>

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

	<b>2020</b>	<b>2019</b>
<b>Operating revenues:</b>		
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
<b>Total operating revenues</b>	<b>27,553,220</b>	<b>25,165,648</b>
<b>Operating expenses:</b>		
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
<b>Total operating expenses</b>	<b>25,282,387</b>	<b>25,091,896</b>
<b>Operating income before overhead absorption</b>	<b>2,270,833</b>	<b>73,752</b>
Overhead absorption	557,620	1,049,246
<b>Operating income before depreciation expense</b>	<b>2,828,453</b>	<b>1,122,998</b>
Depreciation expense (Note 5)	(5,144,968)	(5,257,262)
<b>Operating (loss)</b>	<b>(2,316,515)</b>	<b>(4,134,264)</b>
<b>Non-operating revenues(expenses):</b>		
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	(2,478,228)	(2,611,014)
<b>Total non-operating revenue(expense), net</b>	<b>2,647,757</b>	<b>2,972,460</b>
<b>Net (loss) before capital contributions</b>	<b>331,242</b>	<b>(1,161,804)</b>
<b>Capital contributions:</b>		
Capital improvement fees	1,235,438	624,101
Federal and state capital grants	-	9,185
<b>Total capital contributions</b>	<b>1,235,438</b>	<b>633,286</b>
<b>Change in net position</b>	<b>1,566,680</b>	<b>(528,518)</b>
<b>Net position:</b>		
Beginning of year	95,179,779	95,708,297
End of year	\$ 96,746,459	\$ 95,179,779

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

	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
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	(13,701,317)	(14,379,015)
<b>Net cash provided by operating activities</b>	<b>4,433,354</b>	<b>3,295,350</b>
<b>Cash flows from non-capital financing activities:</b>		
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	(5,238,207)	(4,236,121)
<b>Net cash provided by non-capital financing activities</b>	<b>2,280,128</b>	<b>3,161,225</b>
<b>Cash flows from capital and related financing activities:</b>		
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	(2,461,438)	(2,484,935)
<b>Net cash used in capital and related financing activities</b>	<b>(9,669,094)</b>	<b>(14,537,741)</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(14,609,797)	(5,389,480)
Sales of investments	11,081,930	7,787,908
Investment earnings	153,626	363,779
<b>Net cash provided by (used in) investing activities</b>	<b>(3,374,241)</b>	<b>2,762,207</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(6,329,853)</b>	<b>(5,318,959)</b>
<b>Cash and cash equivalents:</b>		
Beginning of year	10,066,895	15,385,854
End of year	<u>\$ 3,737,042</u>	<u>\$ 10,066,895</u>
<b>Reconciliation of cash and cash equivalents to the statement of net position:</b>		
Cash and cash equivalents	\$ 1,472,530	\$ 5,700,809
Restricted assets – cash and cash equivalents	2,264,512	4,366,086
<b>Total cash and cash equivalents</b>	<u><u>\$ 3,737,042</u></u>	<u><u>\$ 10,066,895</u></u>



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

	<u>2020</u>	<u>2019</u>
<b>Reconciliation of operating (loss) to net cash provided by operating activities:</b>		
Operating (loss)	\$ (2,316,515)	\$ (4,134,264)
<b>Adjustments to reconcile operating (loss) to net cash provided by operating activities:</b>		
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
<b>Change in assets – (increase)decrease:</b>		
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
<b>Change in deferred outflows of resources – (increase)decrease</b>		
Deferred amounts related to net OPEB obligation	(2,490,728)	63,260
Deferred amounts related to net pension liability	176,584	209,050
<b>Change in liabilities – increase(decrease):</b>		
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
<b>Change in deferred inflows of resources – increase(decrease)</b>		
Deferred amounts related to net OPEB obligation	(152,253)	1,187,572
Deferred amounts related to net pension liability	(349,104)	27,947
<b>Total adjustments</b>	<u>6,749,869</u>	<u>7,429,614</u>
<b>Net cash provided by operating activities</b>	<u>\$ 4,433,354</u>	<u>\$ 3,295,350</u>
<b>Non-cash investing, capital and financing transactions:</b>	<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*

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

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

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

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

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

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

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

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

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

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

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

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2020 and 2019

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

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

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

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

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

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

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

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

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

###### 2. Investments

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

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

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

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

## **PALMDALE WATER DISTRICT**

### *Notes to Financial Statements*

*December 31, 2020 and 2019*

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

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

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

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

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

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

###### **4. 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*

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

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

###### **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:

<b>CalPERS</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>
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:

<b>OPEB</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
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*

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

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

###### **12. 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*

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

##### **H. Use of Estimates**

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

#### **NOTE 2 – CASH AND INVESTMENTS**

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

<b>Description</b>	<b>Balance, Dec. 31, 2020</b>	<b>Balance, Dec. 31, 2019</b>
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
<b>Total</b>	<b>\$ 14,001,107</b>	<b>\$ 16,787,204</b>

Cash and investments consisted of the following:

<b>Description</b>	<b>Balance, Dec. 31, 2020</b>	<b>Balance, Dec. 31, 2019</b>
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
<b>Total</b>	<b>\$ 14,001,107</b>	<b>\$ 16,787,204</b>

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

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#### 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 Depositary 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
<b>Total investments</b>			<b>\$ 10,264,065</b>	<b>\$ 10,264,065</b>

**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
<b>Total investments</b>			<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%
<b>Total</b>	<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%
<b>Total</b>	<u>\$ 3,191,370</u>	<u>47.49%</u>

## **PALMDALE WATER DISTRICT**

### *Notes to Financial Statements*

*December 31, 2020 and 2019*

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

The balances consisted of the following;

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

#### **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, 2020, 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**

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

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

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

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

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

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

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**NOTE 5 – CAPITAL ASSETS AND DEPRECIATION**

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

<b>Description</b>	<b>Balance, Jan. 1, 2020</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance, Dec. 31, 2020</b>
<b>Non-depreciable assets:</b>				
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
<b>Total non-depreciable assets</b>	<b>20,107,192</b>	<b>7,019,603</b>	<b>(1,270,726)</b>	<b>25,856,069</b>
<b>Depreciable assets:</b>				
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
<b>Total depreciable assets</b>	<b>315,711,756</b>	<b>6,508,933</b>	<b>(212,357)</b>	<b>322,008,332</b>
<b>Accumulated depreciation:</b>				
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)
<b>Total accumulated depreciation</b>	<b>(173,112,692)</b>	<b>(7,999,195)</b>	<b>212,357</b>	<b>(180,899,530)</b>
<b>Total depreciable assets, net</b>	<b>142,599,064</b>	<b>(1,490,262)</b>	<b>-</b>	<b>141,108,802</b>
<b>Total capital assets, net</b>	<b>\$ 162,706,256</b>	<b>\$ 5,529,341</b>	<b>\$ (1,270,726)</b>	<b>\$ 166,964,871</b>

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

<b>Description</b>	<b>Balance, Jan. 1, 2019</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance, Dec. 31, 2019</b>
<b>Non-depreciable assets:</b>				
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
<b>Total non-depreciable assets</b>	<b>12,562,526</b>	<b>10,824,289</b>	<b>(3,279,623)</b>	<b>20,107,192</b>
<b>Depreciable assets:</b>				
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
<b>Total depreciable assets</b>	<b>308,204,404</b>	<b>7,507,352</b>	<b>-</b>	<b>315,711,756</b>
<b>Accumulated depreciation:</b>				
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)
<b>Total accumulated depreciation</b>	<b>(165,001,203)</b>	<b>(8,111,489)</b>	<b>-</b>	<b>(173,112,692)</b>
<b>Total depreciable assets, net</b>	<b>143,203,201</b>	<b>(604,137)</b>	<b>-</b>	<b>142,599,064</b>
<b>Total capital assets, net</b>	<b>\$ 155,765,727</b>	<b>\$ 10,220,152</b>	<b>\$ (3,279,623)</b>	<b>\$ 162,706,256</b>

## 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	Balance	Balance
	Dec. 31, 2018	Dec. 31, 2019	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	\$ 10,778,169	\$ 18,310,825	\$ 24,059,702

##### 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 marked to various utilities and California's power market.

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

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

**PALMDALE WATER DISTRICT***Notes to Financial Statements**December 31, 2020 and 2019***NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (continued)**

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

**NOTE 6 – COMPENSATED ABSENCES**

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

<b>Balance, Jan. 1, 2020</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, Dec. 31, 2020</b>	<b>Due Within One Year</b>	<b>Due in More Than One Year</b>
\$ 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:

<b>Balance, Jan. 1, 2019</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, Dec. 31, 2019</b>	<b>Due Within One Year</b>	<b>Due in More Than One Year</b>
\$ 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:

<b>Long-Term Debt</b>	<b>Balance, Jan. 1, 2020</b>	<b>Additions/ Adjustments</b>	<b>Payments/ Amortization</b>	<b>Balance, Dec. 31, 2020</b>	<b>Current Portion</b>	<b>Non-Current Portion</b>
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

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

<b>Long-Term Debt</b>	<b>Balance, Jan. 1, 2019</b>	<b>Additions/ Adjustments</b>	<b>Payments/ Amortization</b>	<b>Balance, Dec. 31, 2019</b>	<b>Current Portion</b>	<b>Non-Current Portion</b>
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



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

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**NOTE 7 – LONG-TERM DEBT (continued)****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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	87,040	2,437	89,477
2022	88,252	1,225	89,477
Total	175,292	\$ 3,662	\$ 178,954
Less: current	(87,040)		
Total non-current	\$ 88,252		

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

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

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

<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	(1,261,002)		
Total non-current	\$ 2,643,024		

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2020 and 2019

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#### NOTE 7 – LONG-TERM DEBT (continued)

##### C. Revenue Bonds Payable

###### Certificates of Participation – 2004

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

###### Revenue Bonds Payable – 2013

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

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

Year	Principal	Interest	Total
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
2025-2030	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		

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

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

Description	Balance, Jan. 1, 2020	Additions	Amortization	Balance, Dec. 31, 2020
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:

Description	Balance, Jan. 1, 2019	Additions	Amortization	Balance, Dec. 31, 2019
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 for deposit in the Reserve Fund; and (iv) to pay the costs of issuing the 2018A Bonds. 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. 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:

Year	Principal	Interest	Total
2020	\$ -	\$ 568,894	\$ 568,894
2021	250,000	568,893	818,893
2022	265,000	556,394	821,394
2023	275,000	545,794	820,794
2024	290,000	532,044	822,044
2025-2029	1,680,000	2,427,719	4,107,719
2030-2034	2,115,000	1,988,107	4,103,107
2035-2039	2,520,000	1,581,975	4,101,975
2040-2044	3,150,000	946,625	4,096,625
2045-2048	2,260,000	201,750	2,461,750
Total	12,805,000	\$ 9,918,195	\$ 22,723,195
Less: current	-		
Total non-current	\$ 12,805,000		

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

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

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	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	<u>\$ 5,596,355</u>	<u>\$ 14,574,460</u>
Less: current	<u>(12,501)</u>		
Total non-current	<u>\$ 8,965,604</u>		

**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**

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; and (iii) to pay the costs of issuing the Bonds-2020 Taxable \$268,953. 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.

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	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

**PALMDALE WATER DISTRICT***Notes to Financial Statements**December 31, 2020 and 2019***NOTE 8 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION****Summary**

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

<b>Description</b>	<b>2020</b>	<b>2019</b>
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).

**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:

	<b>Participants</b>
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:

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

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2020 and 2019

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

##### 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:

	2020	2019
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%

##### 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

**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)**

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

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

**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:

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

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

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

**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:

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



**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 healthcare cost trend rates (continued)**

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

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

**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:

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

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:

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

**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, 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	\$ 322,930	\$ -
Changes in assumptions	537,192	(1,187,572)
Total	<u>\$ 860,122</u>	<u>\$ (1,187,572)</u>

At December 31, 2019, the District reported \$307,191 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	(284,110)
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):

	<b>Miscellaneous Plans</b>	
	<b>Classic Tier 1</b>	<b>PEPRA Tier 2</b>
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required member contribution rates	6.902%	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:

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

**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
<b>Total plan members</b>	<b>157</b>	<b>23</b>	<b>180</b>

**Contribution Description**

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

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

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

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
<b>Total contributions</b>	<b>\$ 1,757,642</b>

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

For the years ended December 31, 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:

<b>Plan Type and Balance Descriptions</b>	<b>Plan Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Change in Plan Net Pension Liability</b>
<b>CalPERS – Miscellaneous Plan:</b>			
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
<b>Change in Plan Net Pension Liability</b>	<b>\$ 3,414,099</b>	<b>\$ 2,531,666</b>	<b>\$ 882,433</b>

Changes in the net pension liability for the year ended December 31, 2019, were as follows:

<b>Plan Type and Balance Descriptions</b>	<b>Plan Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Change in Plan Net Pension Liability</b>
<b>CalPERS – Miscellaneous Plan:</b>			
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
<b>Change in Plan Net Pension Liability</b>	<b>\$ 2,326,442</b>	<b>\$ 1,444,562</b>	<b>\$ 881,880</b>

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	Fiscal Year Ending	
	December 31, 2020	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	Fiscal Year Ending	
	December 31, 2019	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)**

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:

<b>Account Description</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
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)
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<b>\$ 2,055,953</b>	<b>\$ (264,680)</b>

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:

<b>Account Description</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
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)
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<b>\$ 2,232,537</b>	<b>\$ (613,784)</b>

**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)**

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:

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

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:

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

***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*

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**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.

Investment Type	Assumed Allocation	Real Return Years 1 - 10 <sup>1</sup>	Real Return Years 11+ <sup>2</sup>
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%
	100%		

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

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

***Sensitivity of the 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:

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

**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% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 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

**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.

## **PALMDALE WATER DISTRICT**

### *Notes to Financial Statements*

*December 31, 2020 and 2019*

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#### **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.

<b>A. Entity</b>	ACWA-JPIA
<b>B. Purpose</b>	To pool member contributions and realize the
<b>C. Participants</b>	As of September 30, 2020 – 396 member districts
<b>D. Governing board</b>	Nine representatives employed by members
<b>E. District payments for FY 2020:</b>	
<b>Property policy</b>	\$62,654
<b>Auto/General liability</b>	\$171,544
<b>F. Condensed financial information</b>	September 30, 2020
<b>Audit signed</b>	April 15, 2021

<b>Statement of financial position:</b>	<b>Sept. 30, 2020</b>
<b>Total assets</b>	<u>\$ 237,525,073</u>
<b>Deferred outflows</b>	<u>1,054,750</u>
<b>Total liabilities</b>	<u>113,075,164</u>
<b>Deferred inflows</b>	<u>1,817,452</u>
<b>Net position</b>	<u><u>\$ 123,687,207</u></u>
<b>Statement of revenues, expenses and changes in net position:</b>	
<b>Total revenues</b>	\$ 197,639,443
<b>Total expenses</b>	<u>(172,886,738)</u>
<b>Change in net position</b>	24,752,705
<b>Beginning – net position</b>	<u>98,934,502</u>
<b>Ending – net position</b>	<u><u>\$ 123,687,207</u></u>
<b>G. Member agencies share of year-end financial position</b>	Not Calculated

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. At December 31, 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:

## **PALMDALE WATER DISTRICT**

### *Notes to Financial Statements*

*December 31, 2020 and 2019*

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#### **NOTE 12 – RISK MANAGEMENT (continued)**

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

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

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

##### **Property**

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

The following is an overview of the program:

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

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

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

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

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

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

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#### 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	\$ 7,120,366
2022	6,952,245
2023	7,224,568
2024	7,321,546
2025	7,458,962

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	\$86,722,455
Delta water charges	25,112,466
Off-aqueduct power facilities	187,540
Revenue bond surcharge	4,326,546
Total	<u>\$116,349,007</u>

## PALMDALE WATER DISTRICT

### Notes to Financial Statements

December 31, 2020 and 2019

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#### 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 \$3,076,612 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	\$ 1,633,745	\$ 6,000,000
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
<b>Total</b>	<u>\$ 10,673,388</u>	<u>\$ 3,076,612</u>	<u>\$ 13,750,000</u>

##### Other Litigation

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

#### 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.

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***Required Supplementary Information***

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

<b>Measurement Date:</b>	<b><u>June 30, 2020</u></b>	<b><u>June 30, 2019</u></b>	<b><u>June 30, 2018</u></b>	<b><u>June 30, 2017</u></b>	<b><u>June 30, 2016</u></b>	<b><u>June 30, 2015</u></b>
District's proportion of the net pension liability	<u>0.10637%</u>	<u>0.10434%</u>	<u>0.10180%</u>	<u>0.10166%</u>	<u>0.10037%</u>	<u>0.09802%</u>
District's proportionate share of the net pension liability	<u>\$ 11,573,771</u>	<u>\$ 10,691,338</u>	<u>\$ 9,809,458</u>	<u>\$ 10,081,661</u>	<u>\$ 8,685,489</u>	<u>\$ 6,727,907</u>
District's covered-employee payroll	<u>\$ 7,675,493</u>	<u>\$ 7,391,878</u>	<u>\$ 6,735,592</u>	<u>\$ 6,482,822</u>	<u>\$ 6,778,010</u>	<u>\$ 6,377,315</u>
District's proportionate share of the net pension liability as a percentage of covered-employee payroll	<u>150.79%</u>	<u>144.64%</u>	<u>145.64%</u>	<u>155.51%</u>	<u>128.14%</u>	<u>105.50%</u>
Plan's fiduciary net position as a percentage of the plan's total pension liability	<u>75.79%</u>	<u>75.92%</u>	<u>75.26%</u>	<u>73.31%</u>	<u>74.06%</u>	<u>78.40%</u>

*\* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

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

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**Last Ten Fiscal Years\***

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

<b>Contributions for the years ending</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Actuarially required contribution	1,559,864	1,373,023	1,178,448	1,026,759	\$ 945,678	\$ 819,205	\$ 805,370
Contributions in relation to the contractually required contribution	(1,559,864)	(1,373,023)	(1,178,448)	(1,026,759)	(945,678)	(819,205)	(805,370)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered-Employee Payroll	7,895,422	7,675,493	7,055,105	6,482,822	\$ 6,589,909	\$ 6,497,710	\$ 5,907,552
Contributions as a Percentage of Covered-Employee Payroll	19.76%	17.89%	16.70%	15.84%	14.35%	12.610%	13.630%

\* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

<sup>1</sup> Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

<sup>2</sup> Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

**Notes to the Schedule:**

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

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

	<b>Last Ten Fiscal Years*</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Total OPEB liability</b>			
Service cost	\$ 459,128	\$ 533,709	\$ 471,435
Interest	542,470	480,852	475,129
Assumptions changes	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	<u>\$ 16,479,807</u>	<u>\$ 12,965,681</u>	<u>\$ 13,598,136</u>
Covered-employee payroll	<u>\$ 8,492,001</u>	<u>\$ 8,067,557</u>	<u>\$ 7,459,193</u>
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	<u>194.06%</u>	<u>160.71%</u>	<u>182.30%</u>

Notes to Schedule:

*\* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

**PALMDALE WATER DISTRICT***Schedule of OPEB Contributions**For the Year Ended December 31, 2020 and 2019*

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**Last Ten Fiscal Years\***

<b>Measurement Date:</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Actuarially Determined Contribution	\$ 379,410	\$ 322,930	\$ 283,520
Actual Employer Contribution	(379,410)	(322,930)	(283,520)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 8,492,001	\$ 8,067,577	\$ 7,459,193
Contributions as a percentage of covered payroll	4.47%	4.00%	3.80%

*\* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

## **PALMDALE WATER DISTRICT**

### *Notes to the Required Supplementary Information For the Year Ended December 31, 2020 and 2019*

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#### **NOTE 1 – PURPOSE OF SCHEDULES**

##### **Schedule of Proportionate Share of the Net Pension Liability**

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer's covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
- The pension plan's fiduciary net position as a percentage of the total pension liability

##### **Schedule of Pension Contributions**

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

##### **Schedule of Changes in the District's Total OPEB Liability and Related Ratios**

This schedule is required by GASB Statement No. 75 and is required for all employers in a cost-sharing OPEB plan. The schedule reports the following information:

- The employer's proportion (percentage) of the collective net OPEB liability
- The employer's proportionate share (amount) of the collective net OPEB liability
- The employer's covered-employee payroll
- The employer's proportionate share (amount) of the collective net OPEB liability as a percentage of the employer's covered-employee payroll
- The OPEB plan's fiduciary net position as a percentage of the total OPEB liability.

##### **Schedule of OPEB Contributions**

This schedule is required by GASB Statement No. 75 and is required for all employers in a cost-sharing OPEB plan. If the contribution requirements of the employer are statutorily or contractually established then the schedule reports the following information:

- The statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, associated with payables to the OPEB plan that arose in a prior fiscal year and those associated with separately financed specific liabilities of the individual employer to the OPEB plan.
- The amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution. For purposes of this schedule, contributions should exclude amounts resulting from contributions recognized by the OPEB plan as noncurrent receivables.
- The difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution.
- The employer's covered-employee payroll.
- The amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution as a percentage of the employer's covered-employee payroll.



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## ***Supplementary Information***

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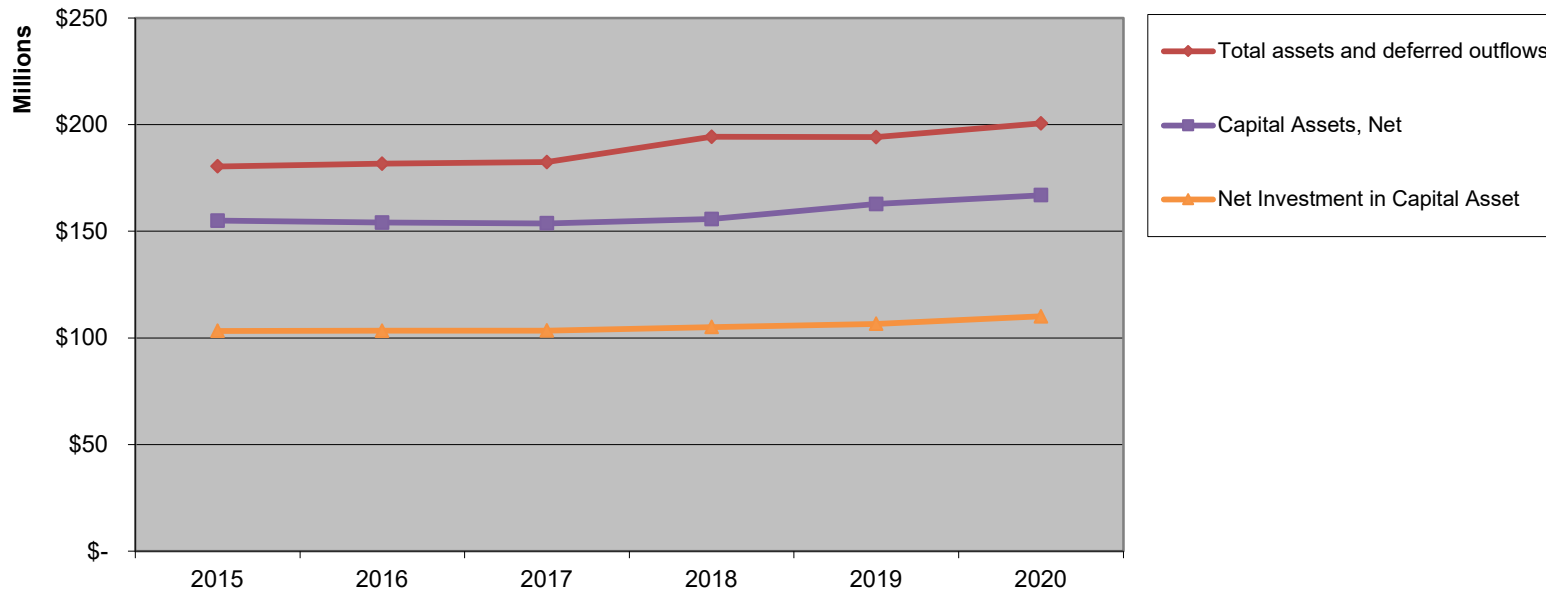
**PALMDALE WATER DISTRICT***Schedules of Debt Service Net Revenues Coverage  
For the Year Ended December 31, 2020 and 2019*

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



**Palmdale Water District  
at December 31  
Analysis of Net Position**

	2015	2016	2017	2018	2019	2020
<b>Assets:</b>						
Current assets	\$ 20,417,825	\$ 21,288,561	\$ 22,153,998	\$ 19,590,071	\$ 20,032,372	\$ 20,210,560
Non-current assets	1,421,189	1,679,251	1,371,868	13,374,737	6,324,308	4,466,060
Capital assets, net	154,946,564	154,023,911	153,742,324	155,765,727	162,706,256	166,964,871
<b>Total Assets</b>	<b>176,785,578</b>	<b>176,991,723</b>	<b>177,268,190</b>	<b>188,730,535</b>	<b>189,062,936</b>	<b>191,641,491</b>
<b>Deferred outflows of revenues</b>	<b>3,684,911</b>	<b>4,724,093</b>	<b>5,158,974</b>	<b>5,530,101</b>	<b>5,101,099</b>	<b>9,018,550</b>
<b>Total assets and deferred outflows</b>	<b>\$ 180,470,489</b>	<b>\$ 181,715,816</b>	<b>\$ 182,427,164</b>	<b>\$ 194,260,636</b>	<b>\$ 194,164,035</b>	<b>\$ 200,660,041</b>
<b>Liabilities:</b>						
Current liabilities	7,732,125.0	7,707,996.0	8,077,898.0	8,225,820.0	9,212,469.0	10,168,200.0
Non-current liabilities	71,738,424	74,031,763	75,438,581	86,440,682	84,670,431	89,145,383
<b>Total Liabilities</b>	<b>79,470,549</b>	<b>81,739,759</b>	<b>83,516,479</b>	<b>94,666,502</b>	<b>93,882,900</b>	<b>99,313,583</b>
<b>Deferred inflows of resources</b>	<b>4,354,840</b>	<b>3,957,895</b>	<b>3,993,082</b>	<b>3,885,837</b>	<b>5,101,356</b>	<b>4,599,999</b>
<b>Net position:</b>						
Net investment in capital assets	103,361,934	103,339,383	103,487,203	105,089,394	\$ 106,542,240	\$ 110,142,267
Restricted	229,923	1,275,331	1,371,868	1,668,290	1,958,222	2,201,548
Unrestricted	(6,946,757)	(8,596,552)	(9,941,468)	(11,049,387)	(13,320,683)	(15,597,356)
<b>Total net position</b>	<b>96,645,100</b>	<b>96,018,162</b>	<b>94,917,603</b>	<b>95,708,297</b>	<b>95,179,779</b>	<b>96,746,459</b>
<b>Total liabilities, deferred inflows and net position</b>	<b>\$ 180,470,489</b>	<b>\$ 181,715,816</b>	<b>\$ 182,427,164</b>	<b>\$ 194,260,636</b>	<b>\$ 194,164,035</b>	<b>\$ 200,660,041</b>



**PALMDALE  
WATER DISTRICT  
BOARD MEMORANDUM**

**DATE:** June 23, 2021 **June 29, 2021**  
**TO:** FINANCE COMMITTEE **Special Committee Meeting**  
**FROM:** Michael Williams, Finance Manager/CFO  
**VIA:** Mr. Dennis LaMoreaux, General Manager  
**RE:** ***AGENDA ITEM 5.1 – REPORTS – S&P RATING ADJUSTMENT RATIONALE***

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S&P has raised the District's credit rating from an "A-" to an "A" for its long-term rating as well as its rating on the upcoming 2021A water revenue bond issue.

Attached is their rationale behind its rating increase, and I have highlighted a few sections that played an important role in this long overdue increase. There are a few factual corrections that need to be made with S&P, and they have been notified, but at the time of this memo the corrections were not made as yet.

**Supporting Documents:**

- S&P Rating Adjustment Rationale



S&P Global Ratings raised its long-term rating on Palmdale Water District, Calif.'s bonds to 'A' from 'A-' outstanding. At the same time, S&P Global Ratings assigned its 'A' rating to the district's series 2021A water revenue bonds. The outlook is stable.

The upgrade reflects our view of the impact of the approved 8.1% annual rate increases from 2020 through fiscal 2024 which will ensure stronger financial metrics moving forward. This is evident with much stronger financial results in unaudited fiscal 2020 of 1.97x from 1.34x in fiscal 2019.

The series 2021A water revenue refunding bonds will have a par amount of approximately \$8.7 million and will be used to fund capital improvements to the water system like sedimentation basin cleaning and water pipes. As of Dec. 31, 2020, the district had approximately \$71.5 million of outstanding obligations when including the series 2021A.

We view bond provisions as credit neutral. The 2021A bonds are payable from net revenues of the water system. Pledged revenues include all water revenues including funds from the rate stabilization fund and ad valorem taxes and assessments based on the county's 1% base property tax levy. The district is an original State Water Project (SWP) contractor, and pledged water revenues exclude property tax receipts levied to pay SWP costs. These costs are also excluded from expenses in the net revenue calculation. We understand that the district plans to fund this with a surety policy. A rate covenant requires the district to generate debt service coverage of at least 1.10x, although withdrawals from a rate stabilization fund can be included in net revenues. The district can issue additional parity debt if projected net revenues provide at least 1.10x debt service coverage on existing and proposed debt. The series 2021A bonds will also have a debt service reserve funded at the lowest of maximum annual debt service, 10% of principal, or 125% of average annual debt service, expected to be met with surety and not cross-collateralized with any outstanding district debt.

### **Credit overview**

Approved rate increases will result in much stronger projected coverage through 2024. This will boost the financial profile from 2018 when the district needed to use the rate stabilization fund to meet coverage requirements. The rate settings practices going forward will have to balance rate affordability with capital plans for an unfunded \$66 million Groundwater water augmentation program. Beyond the augmentation program construction costs the district has identified \$41 million that will be funded by the series 2021, a planned 2023 issuance approximately \$10 million and the remaining balance cash funded from excess reserves.

This district (population: 116,000) is located north of Los Angeles and serves approximately 26,782 active connections, which are primarily residential. The adverse economic conditions during the 2008-2009 recession had a negative impact on the district; however, since then, economic conditions in the Antelope Valley have stabilized, and over the years, the local economy has diversified from a historically agricultural base. In our opinion, management's application of formalized financial practices, policies, and annual rate adoptions have resulted in a stronger financial performance, putting the district in a better position now to deal with the financial impacts from volatility of droughts and moderate downturns in economic activity in the Antelope Valley.

The stable outlook is predicated on the financial stability from the approved rate increases. Further supporting the stable outlook, is the extremely diverse customer base, in our view, with the top 10 customers accounting for 10% of system revenues in fiscal 2020.

### **Environmental, social, and governance factors**

In our opinion, management is mitigating environmental risks through long-term strategic planning focused on water supply diversification, reliability, and environmental compliance. However, there is heightened environmental risk given the district's close proximity to wildfires, specifically the Bobcat Wildfire. As of Sept. 27, 2020 this wildfire has been contained. We understand about 52% of the Littlerock Reservoir watershed was affected, and management expects a higher level of total organic carbon in the district's reservoir water supply. Management expects additional treatment and blending to ensure safe water quality to customers. Additionally, we view the diversification of water supply given the planned Regional Groundwater Recharge and Recovery project as favorable, given SWP allocations vary from year to year depending on hydrology. Governance is in line with peers, represented by the annual review of capital needs and long-range planning for water supply reliability. We believe social risks could become elevated based on the large CIP to improve water sustainability. Rate raising could pressure on the affordability of system rates given the its 13.4% county poverty rate and rising home prices.

Stable Outlook

### **Upside scenario**

A potential rating increase would be predicated on economic income levels growing and unemployment rates more in line with levels of the state or national levels.

### **Downside scenario**

We could lower the rating if unexpected events, like a long drought lead to a draw down in cash or coverage declines to historic past while funding the Groundwater water augmentation program.

### **Credit Opinion**

The enterprise risk profile reflects our view of the system's:

- Service area with decent income indicators and access to the larger Los Angeles-Long Beach-Anaheim metropolitan statistical area economy;
- Water rates may begin to be stressed if incomes are flat over the next four years as the 8.1% preapproved rate increases go into effect. Rates are currently affordable rates based on the average residential bill of \$63.01, based on the typical usage of 20 hundred cubic feet bill. The average residential monthly water bill is about 1.53% of median household effective buying income (MHHEBI), however could be 2% of MHHEBI in 2024 if incomes do not increase during that time frame.
- Good operational synergies represented by management's efforts to diversify water supply due to a history of severe drought conditions and good rate-setting practices.

The financial risk profile reflects our view of the system's:

- During the past three fiscal years, all-in has improved and averaged 1.55x during the past four fiscal years. All-in coverage is our internally adjusted debt service coverage metric that we believe best tracks the use of every dollar of utility operating revenues, regardless of lien position, accounting treatment, or ultimate purpose. The district receives about 8% of nonoperating revenues from property taxes--a portion of the county's 1% base property tax, which are a security of the bonds. The property tax levied to cover SWP fixed costs is not included in our calculation of all-in coverage and is not a security to the bonds. Operating expenses excludes depreciation, noncash-related other postemployment benefits (OPEB) expenses, SWP fixed costs that are secured by property tax revenues, and overhead absorption, which represent capital costs. Management attributes the lower all-in coverage in fiscal 2018 to higher operating expenses related to water treatment in that year. Based on our analysis of management-provided projections, we expect all-in coverage to remain sound during the outlook time frame.
- Unrestricted cash and investments totaled \$11.7 million as of Dec. 31, 2020, representing about 187 days' of operating expenses on hand. Management's goal is to increase available liquidity to \$16 million by fiscal 2023. However, this depends on the district's annual capital spending. Despite capital spending, we expect cash to stay within a range we consider very strong, between \$5 million and \$20 million (90-150 days of operating expenses).
- In our opinion, the district's pro forma debt-to-capitalization ratio is manageable at approximately 43% including the planned 2021 bond issuance. The district's capital improvement plan (CIP) is large during the next five years at \$41 million. Not included in their CIP starting construction in 2025 is the Recharge Project at about \$66 million (construction estimated costs). The district plans to fund this project pursuing grants, State Revolving Fund loans, and other alternative funding. The remaining projects consist primarily of renewal and replacements of current infrastructure and will be funded from the planned \$20 million bond issuance (this issuance and another \$10 million in 2023), connection fees, rate revenue, and available reserves. Approximately 50% of the capital plan excluding the Recharge Project will be debt funded.
- Good financial management practices. Highlights include: The district updates its five-year financial projections annually as a part of the budget process. In addition, management updates the long-range capital plan on an annual basis with general assumptions for which projects will be cash funded versus debt funded. The district has a formal debt and investment policy and an informal liquidity policy of meeting operating expenses and planned and unplanned capital improvement projects. Management also produces annual audited financial statement that complies with the Generally Accepted Accounting Principles

The district provides potable water services to about 26,885 active connections located within a large portion of Palmdale and in surrounding unincorporated Los Angeles County. Palmdale is located about 62 miles by highway from downtown Los Angeles. Residential growth stalled during the Great Recession, but the housing market has stabilized since that time. Palmdale was originally a farming community but has evolved into a diverse economy, with employers including Edwards Air Force Base, Northrop Grumman, the County of Los Angeles, and Lockheed Martin; residents also have access to the Los Angeles metropolitan area. The city of Palmdale's MHHEBI in 2020 was good, in our view, at 94% of the national median.



The district has autonomous rate-setting ability and increases rates as needed to meet its requirements and capital needs. Customers pay a flat monthly rate plus a tiered variable rate based on individual water budgets, with the most recent rate increases of approximately 8% approved annually for 2020 through 2024. Approximately 60% of the district's rate revenue comes from fixed charges, which we believe provide more stability of future revenues during changes in hydraulic conditions. This does not include a drought surcharge that is built into the current rate structure but is levied during drought conditions. Management has a history of performing five-year rate studies and completed the Prop. 218 processes in 2009, 2014, and 2019. In the past, rate increases received pushback from the public and ended up in court; these matters have been resolved, and the relationship has improved, according to the district. In its recent Prop. 218 rate process in 2019, the district indicated it received minimal feedback. Delinquency was about 2.2% in 2020, up from 0.4% in 2019. Management indicated that plan on collecting most if not all delinquent revenue through a variety of methods including payment plans.

Management's plans to diversify water supply to ensure reliability during drought conditions and changes in SWP annual allocations. The groundwater supply has been decreasing because of an adjudication settlement in 2015, which calls for groundwater use ramping down. As a result of the judgment, the district has reduced its groundwater production to 2,769.63 acre-feet (AF) per year from the safe yield. The district's future water supply through 2040 consists of return flow credits under the Antelope Valley adjudication of about 4,000 AF, Surface Water from Littlerock Reservoir of 4,000 AF, SWP water supply at 12,000 AF (assuming 62% SWP allocation), imported SWP water through the district's Butte Transfer Agreement at 6,100 AF and a varying amount of unused Federal reserve right currently at 1,370 AF. In our opinion, the district's plans to diversify water supply through the recycled groundwater recharge and recovery project will create sufficient supply to meet future demand.