

**PALMDALE RECYCLED WATER AUTHORITY (PRWA)
HELD AT CITY OF PALMDALE
CITY HALL COUNCIL CHAMBERS
38300 SIERRA HIGHWAY, SUITE B
PALMDALE, CALIFORNIA
REGULAR MEETING AGENDA NO. 50
AUGUST 19, 2019
7:00 P.M.
www.cityofpalmdale.org
www.palmdalewater.org**

WELCOME

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

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

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

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

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

1. CALL TO ORDER.

2. PLEDGE OF ALLEGIANCE.

3. ROLL CALL: CHAIR JUAN CARRILLO, DIRECTORS VINCENT DINO, KATHY MAC LAREN, AUSTIN BISHOP AND HELEN VELADOR

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

5. CONSENT CALENDAR:

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

5.1 Approve receipt and filing of the Treasurer's Report for the six months ending June 30, 2019. (Staff Reference: Treasurer-Auditor Williams)

5.2 Approve receipt and filing of the Investment Report for the quarter ending June 30, 2019. (Staff Reference: Treasurer-Auditor Williams)

5.3 Approve receipt and filing of the annual basic financial statements with independent auditors' report for year ended December 31, 2018. (Staff Reference: Treasurer-Auditor Williams)

5.4 Approve the Minutes from the previous meeting held on June 17, 2019. (Staff Reference: Secretary Smith)

Staff Recommendation: Move to approve the recommendations and findings on all items listed under this Consent Calendar. (Voice Vote - Requires a majority to approve.)

6. ACTION CALENDAR:

6.1 Discussion and possible action regarding direction on Phase II financing options. (Staff Reference: Executive Director LaMoreaux)

There is no staff report for this item

Call for Public Comments

- 6.2 Discussion and possible action regarding legal opinion on changing PRWA boundaries. (Staff Reference: Executive Director LaMoreaux)

There is no staff report for this item

Call for Public Comments

- 6.3 Discussion and possible action regarding the status of the Grant Application and the need to update the Environmental Document. (Staff Reference: Executive Director LaMoreaux)

There is no staff report for this item

Call for Public Comments

7. SPECIAL REPORT

- 7.1 Report on Recycled Water Line Phase 2 Integrated Regional Water Management Meetings - California Division of Water Resources on July 30th and Stakeholders on August 7th. (Staff Reference: Executive Director LaMoreaux)

There is no staff report for this item

- 7.2 Update and discussion regarding the branding effort. (Staff Reference: Executive Director LaMoreaux)

There is no staff report for this item

8. **NON-AGENDA ITEMS - PUBLIC COMMENTS:** This portion of the Agenda allows an individual the opportunity to address the Board of Directors on any subject regarding Palmdale Recycled Water Authority business. Under state legislation, no action can be taken on items not specifically referenced on the Agenda. **PLEASE NOTE: A three-minute time limit** will be imposed on each speaker other than staff members.

9. REQUESTS FOR NEW AGENDA ITEMS:

10. **INFORMATIONAL REPORT OF THE BOARD OF DIRECTORS, EXECUTIVE DIRECTOR, AND ASSISTANT EXECUTIVE DIRECTOR.**

11. **ADJOURNMENT to September 16, 2019 at 7:00 p.m.** at the City of Palmdale City Hall Administration Training Room located at 38300 Sierra Highway, Suite A, Palmdale, California.
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Complete packets can be viewed at City Hall, located at 38300 Sierra Highway, Suite A, Palmdale, California; Palmdale Water District, 2029 East Avenue Q, Palmdale, California, and the Main Library, located at 700 East Palmdale Boulevard, Palmdale, California. You can also view the Agenda for the Palmdale Recycled Water Authority on the City's website at www.cityofpalmdale.org or the Palmdale Water District website at www.palmdalewater.org.

Thank you for attending your Palmdale Recycled Water Authority meeting. If you have any further questions, please contact the Secretary's Office at (661) 267-5151, Monday through Thursday, 7:30 a.m. to 6:00 p.m., closed every Friday.

PALMDALE RECYCLED WATER AUTHORITY BOARD MEMORANDUM

DATE: August 13, 2019 **August 19, 2019**
TO: BOARD OF DIRECTORS **Board Meeting**
FROM: Michael Williams, Treasurer-Auditor, PRWA
VIA: Mr. Dennis LaMoreaux, Executive Director, PRWA

RE: AGENDA ITEM NO 5.1 – TREASURER'S REPORT FOR JUNE 2019

Recommendation:

Palmdale Recycled Water Authority (PRWA) staff recommends the Board of Directors to receive and file the Treasurer's Report for the six months ending June 30, 2019.

Background:

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

Financial Impact:

As of June 30, 2019, the PRWA has \$2,140,507.06 in cash and investments. PRWA earned \$3,992.72 in interest, received \$5,083.16 in receivables, and there were \$1,761.47 in expenses and fees paid for the month.

Supporting Documents:

Treasurer's Report for month ending June 30, 2019.
Balance Sheet for period ending June 30, 2019.
Income Statement for period ending June 30, 2019.

**Palmdale Recycled Water Authority
Treasurer's Report
Month Ended June 30, 2019**

Cash/Funds Available and held at Bank of America, Citizens Business Bank, & UBS Financial Svcs:

Bank Balance, beginning June 1, 2019	2,133,192.65
Less: Expenses Paid	(22.94)
Less: Bank Fees Paid (Analysis Fees & Credit Card Processing)	-
Add: Deposits Made	5,083.16
Add: Interest Earned & Market Adjustment on Investments	3,992.72
Add: Deposit in Transit	-
Less: Outstanding Check (Ledger Tie-Out)	(1,738.53)
Bank Balance, ending June 30, 2019	2,140,507.06
Less: Accounts Payable	(464.87)
Less: Accrued Purchases	(7,012.20)
Less: Accrued Payroll Taxes	-
Less: Deposits - Customer	(4,000.00)
Add: Accounts Receivable	5,149.96
Add: Interest Receivable	-
Adjusted Bank Balance, ending June 30, 2019	2,134,179.95

Outstanding Checks (Prior Month(s)):

May Checks Issued:

Nigro & Nigro - Audit Final Pymt	1,600.00
Director Pay - Meetings & Business Expense Reimbursement	138.52

Total Checks Issued	<u>1,738.52</u>
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Palmdale Recycled Water Authority
Balance Sheet
For the Six Months Ending 6/30/2019

	<u>YTD</u>
ASSETS	
UBS- Investment Funds	\$1,614,912
Bank of America - Checking	\$40,669
Citizens Business Bank - Checking	\$484,927
Prepaid Memberships	
Prepaid Insurance	4,022
Accounts Receivable	
- Water	5,150
- Government Agency	
Interest Receivable	
Property, Plant and Equipment, net	<u>1,775,785</u>
Total Assets	<u><u>\$3,925,465</u></u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$465
Accrued Expense	7,012
Deposits - Customer	<u>4,000</u>
Total Liabilities	<u>11,477</u>
FUND BALANCE	
Unassigned	<u>3,913,987</u>
Total Fund Balance	<u>3,913,987</u>
Total Liabilities and Fund Balance	<u><u>\$3,925,465</u></u>

**Palmdale Recycled Water Authority
Income Statement - Current and YTD
For the Six Months Ending 6/30/2019**

	<u>June</u>	<u>YTD</u>
REVENUES:		
Contributions - Palmdale Water District		\$300,000.00
Contributions - City of Palmdale		300,000.00
Grant Funds		
Water Sales	4,999.87	17,382.24
Interest Earnings	1,853.68	5,797.06
Market Adjustment on Investments	2,139.04	6,022.90
Total Revenue	<u>\$8,992.59</u>	<u>\$629,202.20</u>
EXPEDITURES:		
General Government		
Public Representative - Payroll Tax Expense (Employer)	11.47	45.90
Public Representative - Travel & Meeting	150.00	600.00
Banking Fees		259.54
Provision for Bad Debt		
Insurance	446.92	4,021.76
Memberships		3,129.75
Operating Supplies		
Marketing & Outreach		
Travel & Meeting		
Permits & Fees		
Utilities - Purchased Water		
Materials & Supplies		
Maint. & Repair - Water System		
	<u>\$608.39</u>	<u>\$8,056.95</u>
Public Resource		
Contracted Services - Professional Svcs		
Contracted Services - Audit	1,600.00	8,000.00
	<u>1,600.00</u>	<u>8,000.00</u>
	<u>\$2,208.39</u>	<u>\$16,056.95</u>
Non-Cash Operating Expense		
Depreciation	4,450.59	26,703.54
Non-Operating Revenue		
Capital Contribution		
	<u>(\$4,450.59)</u>	<u>(\$26,703.54)</u>
Change in Net Position	<u>\$2,333.61</u>	<u>\$586,441.71</u>
Net Position - Beginning of Year		3,327,545.72
Net Position - End of Year	<u>\$2,333.61</u>	<u>\$3,913,987.43</u>

**PALMDALE RECYCLED
WATER AUTHORITY
BOARD MEMORANDUM**

DATE: August 13, 2019 **August 19, 2019**
TO: BOARD OF DIRECTORS **Board Meeting**
FROM: Michael Williams, Treasurer-Auditor, PRWA
VIA: Mr. Dennis LaMoreaux, Executive Director, PRWA

RE: AGENDA ITEM NO 5.2 – INVESTMENT REPORT FOR QUARTER ENDING JUNE 30, 2019

Recommendation:

Palmdale Recycled Water Authority (PRWA) staff recommends to the Board of Directors to receive and file the Investment Report for the quarter ending June 30, 2019.

Background:

To comply with provisions of California Government Code 53646, the attached investment report includes a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for the Authority by third party contracted managers. The report is hereby submitted to the Board of Directors for ratification.

Financial Impact:

As of June 30, 2019, the PRWA has \$4,154.55 in cash, \$968,000 in U.S. Treasury Bill and \$640,000 in Certificates of Deposits with UBS Investment Services.

Supporting Documents:

Investment Report for quarter ending June 30, 2019

PALMDALE RECYCLED WATER AUTHORITY

June 30, 2019

INVESTMENTS

June 2019

UBS Money Market Account (SS 30999)

Cash	\$4,154.55
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US Government Securities

CUSIP #	Issuer	Maturity Date	Rate	PAR	Market Value
912828543	US Treasury Bill	07/15/2019	0.750	\$300,000	\$299,829.00
912796SG5	US Treasury Bill	09/05/2019	2.325	300,000	298,848.00
9128283H1	US Treasury Bill	11/30/2019	1.750	368,000	367,426.92
				<u>\$968,000</u>	<u>\$966,103.92</u>

Certificates of Deposit

	Issuer	Maturity Date	Rate	Face Value	
1	US Bank	08/27/2019	2.350	150,000	150,025.50
2	Pinnacle Bank	10/30/2019	2.400	150,000	150,112.50
3	Texas Capital Bank	11/15/2019	2.400	170,000	170,156.40
4	Valley National Bank	11/15/2019	2.350	170,000	170,124.10
				<u>\$640,000</u>	<u>\$640,418.50</u>

Acct. Total	<u>\$1,610,676.97</u>
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Accrued interest	<u>\$4,234.92</u>
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TOTAL CASH AND INVESTMENTS	<u><u>\$1,614,911.89</u></u>
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PALMDALE RECYCLED WATER AUTHORITY

BOARD MEMORANDUM

DATE: August 12, 2019
TO: BOARD OF DIRECTORS
FROM: Michael Williams, Treasurer-Auditor, PRWA
VIA: Mr. Dennis LaMoreaux, Executive Director, PRWA

August 19, 2019
Board Meeting

RE: AGENDA ITEM NO 5.3 – BASIC FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT AND REQUIRED SUPPLEMENTAL
INFORMATION FOR YEAR ENDED DECEMBER 31, 2018

Recommendation:

Palmdale Recycled Water Authority (PRWA) staff recommends the Board of Directors to receive and file the annual basic financial statements with independent auditors' report for year ended December 31, 2018.

Background:

To comply with provisions required by Section 5.4(b) of the Joint Powers of Authority Agreement and responsibilities of the Authority, a certified public accounting firm has completed the annual auditors' report and required supplemental information for the Board. These reports are hereby submitted to the Board of Directors for ratification.

Financial Highlights

- The Authority's net position increased by approximately 21.6% or \$592,844 compared to last year.
- The Authority's total liabilities at December 31, 2018 were \$28,735.
- The Authority had operating revenues of \$675,963 compared to 2017 operating revenues of \$251,560 primarily due to the two members each increasing their annual contributions to \$300,000 in 2018 from \$100,000 in 2017.
- The Authority's operating expenses decreased by \$28,074 during 2018. Primarily due to no transmission or distribution expenses in 2018.

The audit did not contain any findings of other matters that are required to be reported to the Board.

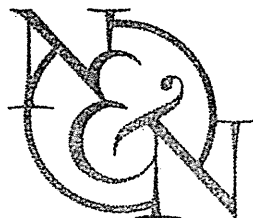
Financial Impact:

None

Supporting Documents:

Basic Financial Statements with Independent Auditors' Report for Year Ended December 31, 2018.

PALMDALE RECYCLED WATER AUTHORITY
AUDIT FINANCIAL REPORT
For the Fiscal Year Ended
December 31, 2018



PALMDALE RECYCLED WATER AUTHORITY

For the Fiscal Year Ended December 31, 2018

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Financial Section



NIGRO & NIGRO^{PC}

A PROFESSIONAL ACCOUNTANCY CORPORATION

INDEPENDENT AUDITORS' REPORT

Board of Directors
Palmdale Recycled Water Authority
Palmdale, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Palmdale Recycled Water Authority (Authority) which comprise the balance sheet as of December 31, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Palmdale Recycled Water Authority, as of December 31, 2018, and the respective changes in net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

The financial statements for the year ended December 31, 2017 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2017 financial statements in their report dated August 7, 2018. The comparative information is presented herein as of and for the year ended December 31, 2018, and is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated June 25, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Murrieta, California
June 25, 2019

PALMDALE RECYCLED WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2018

Management's Discussion and Analysis (MD&A) offers readers of Palmdale Recycled Water Authority's financial statements a narrative overview of the Authority's financial activities for the fiscal year ended December 31, 2018. 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

- Authority's net position increased by approximately 21.6% or \$592,844 compared to the prior year.
- The Authority had 2018 operating revenue of \$675,963 as compared to 2017 operating revenue of \$251,560 primarily due to the two members each increasing their annual member agency contribution to \$300,000 in 2018 from \$100,000 in 2017.
- The Authority's operating expenses for 2018 decreased \$28,074 from \$115,736 in 2017 to \$87,662 in 2018 due primarily to no transmission and distribution expenses in 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

This management's discussion and analysis serves as an introduction to the Authority's financial statements. The Authority'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 and results of operations during the fiscal year ending December 31, 2018 and 2017. 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.

REQUIRED FINANCIAL STATEMENTS

Balance Sheet

The Balance Sheet presents information on the Authority's assets and liabilities 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 Authority 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 exceed liabilities, resulting in a net position of \$3,336,579 as of December 31, 2018.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Authority's net position changed during the fiscal year. All of the year's revenues and expenses are accounted for in this statement. This statement measures the results of the Authority's operations for the year and can be used to determine if the Authority has successfully recovered all of its costs through user fees and other charges. Operating revenues and expenses are related to the Authority's core activities. Non-operating revenues and expenses are not directly related to the core activities of the Authority. For the fiscal year ended December 31, 2018 net position increased by 21.6% or \$592,844.

PALMDALE RECYCLED WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2018

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Balance Sheet

	<u>2018</u>	<u>2017</u>	<u>Change</u>
ASSETS			
Current assets	\$ 1,562,825	\$ 929,971	\$ 632,854
Capital assets, net (note 3)	<u>1,802,489</u>	<u>1,855,896</u>	<u>(53,407)</u>
Total assets	<u>\$ 3,365,314</u>	<u>\$ 2,785,867</u>	<u>\$ 579,447</u>
LIABILITIES			
Current liabilities	\$ 28,735	\$ 42,132	\$ (13,397)
Total liabilities	<u>28,735</u>	<u>42,132</u>	<u>(13,397)</u>
NET POSITION			
Investment in capital assets	1,802,489	1,855,896	(53,407)
Unrestricted	<u>1,534,090</u>	<u>887,839</u>	<u>646,251</u>
Total net position	<u>3,336,579</u>	<u>2,743,735</u>	<u>592,844</u>
Total liabilities and net position	<u>\$ 3,365,314</u>	<u>\$ 2,785,867</u>	<u>\$ 579,447</u>

The Authority's net position increased by approximately 21.6% or \$592,844 compared to the prior year.

Analysis of Revenues and Expenses

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

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Operating Revenues	\$ 675,963	\$ 251,560	\$ 424,403
Operating Expenses	<u>87,662</u>	<u>115,736</u>	<u>(28,074)</u>
Operating income	588,301	135,824	452,477
Non-Operating Revenues	<u>4,543</u>	<u>57,249</u>	<u>(52,706)</u>
Change in net position	<u>592,844</u>	<u>193,073</u>	<u>399,771</u>
Net Position			
Beginning of year	<u>2,743,735</u>	<u>2,550,662</u>	
End of year	<u>\$ 3,336,579</u>	<u>\$ 2,743,735</u>	

PALMDALE RECYCLED WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2018

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Analysis of Revenues and Expenses (continued)

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses and Changes in Net Position provides answers to the nature and source of these changes. The main factor in the change in net position is due to the following:

- The Authority had 2018 operating revenue of \$675,963 as compared to 2017 operating revenue of \$251,560 primarily due to the two members increasing their annual member agency contribution to \$300,000 in 2018 from \$100,000 in 2017.
- The Authority's operating expenses for 2018 decreased \$28,074 from \$115,736 in 2017 to \$87,662 in 2018 due primarily to no transmission and distribution expenses in 2018.

CAPITAL ASSETS

At the end of 2018 the Authority had \$1,802,489 as an investment in net capital assets that includes the recycled water pipeline and pumping facilities. This asset was transferred from the City of Palmdale to the Authority as part of the joint-powers agreement in prior years.

FACTORS AFFECTING CURRENT FINANCIAL POSITION

The Authority anticipates that operating revenues and expenses for fiscal year 2019 will be about the same as fiscal year 2018. This is reflected in the Authority's budget for the 2019 fiscal year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is intended to provide the Board of Directors, customers, taxpayers, creditors, and other interested parties with general overview of the Authority's financial operations and condition at the year ended December 31, 2017, and to demonstrate the Authority's accountability for the funds it receives. If you have any questions about this report or need additional information, you may contact Palmdale Water District, Finance Department, at 2029 E Avenue Q, Palmdale, CA 93550. (661) 947-4111.

PALMDALE RECYCLED WATER AUTHORITY

Balance Sheet

December 31, 2018

(With comparative information as of December 31, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents (note 2)	\$ 656,770	\$ 926,807
Investments (note 2)	898,064	-
Interest receivable	462	-
Accounts receivable	2,818	168
Prepaid expenses	4,711	2,996
Capital assets, net (note 3)	1,802,489	1,855,896
Total assets	<u>\$ 3,365,314</u>	<u>\$ 2,785,867</u>
LIABILITIES		
Accounts payable	\$ 25,735	\$ 35,132
Customer deposits	3,000	7,000
Total liabilities	<u>28,735</u>	<u>42,132</u>
NET POSITION		
Investment in capital assets	1,802,489	1,855,896
Unrestricted	1,534,090	887,839
Total net position	<u>3,336,579</u>	<u>2,743,735</u>
Total liabilities and net position	<u>\$ 3,365,314</u>	<u>\$ 2,785,867</u>

PALMDALE RECYCLED WATER AUTHORITY*Statement of Revenues Expenses and Changes in Net Position**For the Fiscal Year Ended December 31, 2018**(With comparative information for the fiscal year ended December 31, 2017)*

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Member agency contributions	\$ 600,000	\$ 200,000
Water sales	55,806	28,748
Meter and other revenue	<u>20,157</u>	<u>22,812</u>
Total operating revenues	<u>675,963</u>	<u>251,560</u>
Operating Expenses		
Source of supply	12,644	14,789
Transmission and distribution	-	32,430
General and administrative	21,611	15,110
Depreciation	<u>53,407</u>	<u>53,407</u>
Total operating expenses	<u>87,662</u>	<u>115,736</u>
Operating income	<u>588,301</u>	<u>135,824</u>
Non-Operating Revenues		
Grant revenue	-	55,582
Investment earnings	<u>4,543</u>	<u>1,667</u>
Total non-operating revenues	<u>4,543</u>	<u>57,249</u>
Change in net position	592,844	193,073
Net Position		
Beginning of year	<u>2,743,735</u>	<u>2,550,662</u>
End of year	<u>\$ 3,336,579</u>	<u>\$ 2,743,735</u>

PALMDALE RECYCLED WATER AUTHORITY**Statement of Cash Flows****For the Fiscal Year Ended December 31, 2018****(With comparative information for the fiscal year ended December 31, 2017)**

	2018	2017
Cash flows from operating activities:		
Cash received from member agencies	\$ 600,000	\$ 200,000
Cash received from water and other revenue	71,598	44,332
Cash payments for operating expenses	(47,652)	(92,314)
Net cash provided by operating activities	623,946	152,018
Cash flows from non-capital financing activities:		
Grant revenues	-	55,582
Net cash provided by investing activities	-	55,582
Cash flows from investing activities:		
Purchases of investments	(1,045,994)	-
Sales of investments	150,000	-
Investment income	2,011	1,667
Net cash provided by (used in) investing activities	(893,983)	1,667
Net increase (decrease) in cash and cash equivalents	(270,037)	209,267
Cash and cash equivalents:		
Beginning of year	926,807	717,540
End of year	\$ 656,770	\$ 926,807
	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 588,301	\$ 135,824
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	53,407	53,407
(Increase) decrease in assets:		
Accounts receivable	(2,650)	3,251
Prepaid expenses	(1,715)	-
Increase (decrease) in liabilities:		
Accounts payable	(9,397)	(37,964)
Customer deposits	(4,000)	(2,500)
Net cash provided by operating activities	\$ 623,946	\$ 152,018

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations of the Reporting Entity

The Palmdale Recycled Water Authority (Authority) was formed under a Joint Exercise of Powers Authority on September 26, 2012, pursuant to Sections 6506 and 6507 of the Exercise of Powers Act, codified at California Government Code sections 6500, authorizes public agencies by agreement to exercise jointly any power common to the contracting parties. The Authority was formed between the City of Palmdale, a California Charter City (City) and the Palmdale Water District, an Irrigation District under Division 11 of the California Water Code (PWD). The Authority is an independent public agency separate from the Members. The Authority's board consists of two members each from the City and PWD and one public member appointed by the other four 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.

Basis of Accounting and Measurement Focus

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

Financial Reporting

The Authority's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States Board (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the Authority's proprietary fund.

Operating revenues and expenses result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. Management administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

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

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Authority 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.

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.

Prepaid Expenses

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

Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the Authority'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 Authority's recycled water distribution system is 40-years.

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Investment in capital assets - This component of net position consists of capital assets net of accumulated depreciation.

Unrestricted – This component of net position is the net amount of the assets less liabilities that are not included in the determination of the investment in capital assets component of net position.

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Member Agency Contributions

The Authority's joint exercise of powers agreement provides that any member may make contributions of money or assets to the Authority; make or advance payments of public funds to defray the cost of Authority's operation; and contribute personnel, equipment or property instead of or in addition to other contributions or advances. Such contributions shall be paid to and disbursed by the Authority as set out in separate agreements between the Authority and the member and approved by the board and the governing body of the member. During 2018 and 2017, each member agency contributed \$300,000 and \$100,000, respectively.

Grants

Grant revenues are recorded when earned on grants that have been approved and funded by the grantor.

Member's Equity

In the event of a member withdrawal, member termination, or dissolution of the Authority, any property interest remaining in the Authority, following a discharge of all obligations shall be disposed of pursuant to the Joint Powers Agreements as adopted by the Governing Board.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at December 31, 2018 and 2017, are classified on the balance sheet as follows:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 656,770	\$ 926,807
Investments	898,064	-
Total cash and investments	<u>\$ 1,554,834</u>	<u>\$ 926,807</u>

Cash and investments at December 31, 2018 and 2017, are reported at fair value and consisted of the following:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Demand deposits with financial institutions	\$ 552,164	\$ 926,807
Money-market funds	104,606	-
Investments	898,064	-
Total cash and investments	<u>\$ 1,554,834</u>	<u>\$ 926,807</u>

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

Demand Deposits with Financial Institutions

At December 31, 2018 and 2017, the carrying amount of the Authority's demand deposits were \$552,164 and \$926,807, respectively, and the financial institution's balance were \$552,164 and \$926,807, respectively. There was no net difference and/or other reconciling items between the financial institution's balance and the Authority'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 Authority 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.

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 Association considers money-market funds a cash equivalent due to their highly liquid nature and NAV of \$1 per share. As of December 31, 2018, the Association held \$104,606 in money-market funds.

Authorized Investments and Investment Policy

The Authority is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase of reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations as specified in Section 53600. The Authority does not have a formal policy for investments that is more restrictive than the noted Government Code.

Maturities and credit ratings of investments held at December 31, 2018, 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	\$ 598,446	\$ 598,446
Certificates-of-deposit	Level 2	Not Rated	299,618	299,618
Total investments			<u>\$ 898,064</u>	<u>\$ 898,064</u>

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments - Interest Rate Risk

The Authority's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority's investment policy limits investment purchases to investments with a term not to exceed five-years.

Investments - Credit Risk

The Authority's investment policy limits investment choices to investment securities allowed by the California Government Code. At December 31, 2018, all investments represented investment securities which were issued, registered and held by the Authority's agent in the Authority's name.

Investments - Concentration of Credit Risk

The Authority does not place limits on the amount it may invest in any one issuer. At December 31, 2018, the Authority had the following investments that represented more than five percent of the Authority's net investment balance.

Investments with Maturity Dates	Fair Value	Percentage of Investments
U.S. Treasury note – January 17, 2019	\$ 299,715	33.37%
U.S. Treasury note – March 7, 2019	298,731	33.26%
Certificate-of-deposit – February 15, 2019	149,987	16.70%
Certificate-of-deposit – April 22, 2019	149,631	16.66%
Total	\$ 898,064	100.00%

NOTE 3 – CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

Capital asset activity for the year ended December 31, 2018, was as follows:

Description	Balance Jan 1, 2018	Additions	Deletions/ Transfers	Balance Dec 31, 2018
Depreciable assets:				
Recycled water distribution system	\$ 2,136,283	\$ -	\$ -	\$ 2,136,283
Accumulated depreciation:				
Recycled water distribution system	(280,387)	(53,407)	-	(333,794)
Total capital assets, net	\$ 1,855,896	\$ (53,407)	\$ -	\$ 1,802,489

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

Years Ended December 31, 2018

NOTE 4 – RELATED PARTY TRANSACTIONS

The board of the Authority has assigned staff from the Palmdale Water District and the City of Palmdale to serve in various administrative duties of the Authority. All payroll cost related to staff time while serving the Authority is incurred by the respective agencies and none of the payroll costs are incurred by the Authority nor are they charged to the Authority for such services. Other transactions with the member agencies are accounted for as exchange-like transactions between the parties involved.

NOTE 5 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased various commercial insurance policies to manage the potential liabilities that may occur from the previously named sources.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Litigation

The Authority is involved in routine litigation incidental to its business and may be subject to claims and litigation from outside parties. After consultation with legal counsel, management believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

Other Independent Auditors' Report



NIGRO & NIGRO^{PC}

A PROFESSIONAL ACCOUNTANCY CORPORATION

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

Board of Directors
Palmdale Recycled Water Authority
Palmdale, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palmdale Recycled Water Authority (Authority) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Palmdale Recycled Water Authority's basic financial statements, and have issued our report thereon dated June 25, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Murrieta, California
June 25, 2019