

**PALMDALE RECYCLED WATER AUTHORITY (PRWA)
HELD AT CITY OF PALMDALE
CITY HALL COUNCIL CHAMBER
38300 SIERRA HIGHWAY, SUITE B
PALMDALE, CALIFORNIA
REGULAR MEETING
MONDAY
OCTOBER 21, 2024
6:00 P.M.**

www.palmdalerwa.org

WELCOME

PLEASE NOTE: You can view this agenda and related items on our website at <https://palmdalerwa.org/>. You can request a copy of this agenda or attachments, if any, by contacting the City Clerk's Office at 661-267-5151.

In general, a **three-minute time limit** will be imposed on all speakers other than staff members, although the chair has the authority to change the amount of time allotted.

In accordance with the Americans with Disabilities Act of 1990, if you require a disability-related modification or accommodation to participate in this meeting, please contact the City Clerk's Office at (661) 267-5151 at least 72 hours prior to the meeting.

If you require oral translation, please contact the City Clerk's Office at (661) 267-5151 at least 72 hours prior to the meeting.

Your courtesy is requested to help our meeting run smoothly. If you will 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 AUSTIN BISHOP, DIRECTORS DON WILSON, SCOTT KELLERMAN, LAURA BETTENCOURT, AND ZAKEYA ANSON**

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 Consent Calendar and will be considered separately following this portion of the agenda.

- 5.1 Approve the Minutes from the previous meeting held on May 20, 2024. (Staff Reference: Authority Secretary Faber)
- 5.2 Approve receipt and filing of the Treasurer's Report for the nine months ending September 30, 2024. (Staff Reference: Treasurer-Auditor Hoffmeyer)
- 5.3 Approve receipt and filing of the Investment Report for the quarter ending September 30, 2024. (Staff Reference: Treasurer-Auditor Hoffmeyer)
- 5.4 Approve receipt and filing of the annual basic financial statements with independent auditors' report for year ended December 31, 2023. (Staff Reference: Treasurer-Auditor Hoffmeyer)
- 5.5 Approve Resolution No. PRWA 2024-002 establishing its Investment Policy for the calendar year 2025. (Staff Reference: Treasurer-Auditor Hoffmeyer)

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

6. **ACTION ITEM(S)**

- 6.1 Consideration and Possible Action on Resolution No. PRWA 2024-001 Authorizing the Adoption of the Palmdale Recycled Water Authority 2025 Annual Budget.

Call for Public Comments

Staff Recommendation: Move to Adopt Resolution No. PRWA 2024-001 the Palmdale Recycled Water Authority 2025 Annual Budget. (Vote by Roll Call – requires a majority to adopt and/or approve and per Section 4.9(e) of the Authority’s Joint Exercise of Powers Agreement, the affirmative vote of at least one director from each member agency.)

7. DIRECTOR REQUESTS FOR NEW AGENDA ITEMS

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

- 8.1 Update on the Avenue Q Recycled Water Pipeline Project – Construction Status and updated cost share amount

9. ADJOURNMENT

PALMDALE RECYCLED WATER AUTHORITY

BOARD MEMORANDUM

DATE: October 14, 2024 **October 21, 2024**
TO: BOARD OF DIRECTORS **Board Meeting**
FROM: Dennis J. Hoffmeyer, Treasurer-Auditor, PRWA
VIA: Mr. Dennis LaMoreaux, Executive Director, PRWA

RE: AGENDA ITEM NO 5.2 – TREASURER’S REPORT FOR SEPTEMBER 2024

Recommendation:

Palmdale Recycled Water Authority (PRWA) staff recommends the Board of Directors to receive and file the Treasurer’s Report for the four months ending September 30, 2024.

Background:

To comply with provisions required by Section 4.13 of the Joint Powers of Authority Agreement and the responsibilities of the 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 September 30, 2024, the PRWA has \$ 3,38,843.95 in cash and investments. PRWA had interest and market adjustment of \$10,747.46, received \$7,465.40 in receivables, and there were no expenses and fees paid for the month.

Supporting Documents:

Treasurer’s Report for the month ending September 30, 2024.
Balance Sheet for the period ending September 30, 2024.
Income Statement for the period ending September 30, 2024.

**Palmdale Recycled Water Authority
Treasurer's Report
Month Ended September 30, 2024**

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

Bank Balance, beginning September 1, 2024	3,020,631.09
Less: Expenses Paid	-
Less: Bank Fees Paid (Analysis Fees & Credit Card Processing)	-
Add: Deposits Made	7,465.40
Add: Interest Earned & Market Adjustment on Investments	10,747.46
Add: Deposit in Transit	-
Less: Outstanding Check (Ledger Tie-Out)	-
Bank Balance, ending September 30, 2024	3,038,843.95
Less: Accounts Payable	-
Less: Accrued Purchases	(1,383.11)
Less: Accrued Payroll Taxes	-
Less: Deposits - Customer	(3,000.00)
Add: Accounts Receivable	3,609.06
Add: Interest Receivable	-
Adjusted Bank Balance, ending September 30, 2024	3,038,069.90

Outstanding Checks (Prior Month(s)):

Deposit Refund - HHS Communications	589.30
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September Checks Issued:

Total Checks Issued

-

Palmdale Recycled Water Authority
Balance Sheet
For the Nine Months Ending 9/30/2024

	<u>YTD</u>
ASSETS	
UBS- Investment Funds	\$2,447,374
Bank of America - Checking	\$41,558
Citizens Business Bank - Checking	\$549,913
Prepaid Memberships	
Prepaid Insurance	4,960
Accounts Receivable	
- Water	3,609
- Government Agency	
Interest Receivable	
Property, Plant and Equipment, net	<u>1,495,398</u>
Total Assets	<u><u>\$4,542,811</u></u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	
Accrued Expense	1,383
Deposits - Customer	<u>3,000</u>
Total Liabilities	<u>4,383</u>
FUND BALANCE	
Unassigned	<u>4,538,428</u>
Total Fund Balance	<u>4,538,428</u>
Total Liabilities and Fund Balance	<u><u>\$4,542,811</u></u>

**Palmdale Recycled Water Authority
Income Statement - Current and YTD
For the Nine Months Ending 9/30/2024**

	<u>September</u>	<u>YTD</u>
REVENUES:		
Contributions - Palmdale Water District		
Contributions - City of Palmdale		
Grant Funds		
Water Sales	4,696.27	35,198.01
Interest Earnings	6,407.92	56,217.31
Market Adjustment on Investments	4,339.54	33,441.87
Total Revenue	\$15,443.73	\$124,857.19
EXPEDITURES:		
General Government		
Public Representative - Payroll Tax Expense (Employer)		
Public Representative - Travel & Meeting		
Banking Fees		34.07
Provision for Bad Debt		
Insurance	826.79	7,107.40
Memberships		250.00
Operating Supplies		
Marketing & Outreach		
Travel & Meeting		
Permits & Fees		
Utilities - Purchased Water		310.18
Materials & Supplies		
Maint. & Repair - Water System		
	<u>\$826.79</u>	<u>\$7,701.65</u>
Public Resource		
Contracted Services - Professional Svcs		
Contracted Services - Audit		8,500.00
		<u>8,500.00</u>
	<u>\$826.79</u>	<u>\$16,201.65</u>
Non-Cash Operating Expense		
Depreciation	4,450.59	40,055.31
Non-Operating Revenue		
Capital Contribution		
	<u>(\$4,450.59)</u>	<u>(\$40,055.31)</u>
Change in Net Position	<u>\$10,166.35</u>	<u>\$68,600.23</u>
Net Position - Beginning of Year		4,469,828.12
Net Position - End of Year	<u>\$10,166.35</u>	<u>\$4,538,428.35</u>

PALMDALE RECYCLED WATER AUTHORITY BOARD MEMORANDUM

DATE: October 14, 2024
TO: BOARD OF DIRECTORS
FROM: Dennis J. Hoffmeyer, Treasurer-Auditor, PRWA
VIA: Mr. Dennis LaMoreaux, Executive Director, PRWA

**October 21, 2024
Board Meeting**

**RE: AGENDA ITEM NO 5.3 – INVESTMENT REPORT FOR THE QUARTER ENDING
SEPTEMBER 30, 2024**

Recommendation:

Palmdale Recycled Water Authority (PRWA) staff recommends to the Board of Directors to receive and file the Investment Report for the quarter ending September 30, 2024.

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 September 30, 2024, the PRWA has \$218,580.75 in a money market (cash), \$1,695,550.60 in U.S. Treasury Bill/Note, and \$511,552.39 in Certificates of Deposits with UBS Investment Services with accrued interest in the amount of \$21,690.06.

Supporting Documents:

Investment Report for the quarter ending June 30, 2024.
Investment Report for the quarter ending September 30, 2024.

PALMDALE RECYCLED WATER AUTHORITY
INVESTMENT REPORT
June 30, 2024

UBS Money Market Account (SS 30999)

Cash	\$150,375.78
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US Government Securities

	CUSIP #	Issuer	Maturity Date	Rate	Face Value	Market Value
1	91282CEX5	US Treasury Note	06/30/2024	3.030	503,000	503,000.00
2	912828YE4	US Treasury Note	08/31/2024	1.300	211,000	209,525.11
3	91282CFQ9	US Treasury Note	10/31/2024	4.390	500,000	498,280.00
4	91282CDN8	US Treasury Note	12/15/2024	1.000	500,000	490,370.00
5	9128283P3	US Treasury Note	12/31/2024	2.250	289,000	284,659.22
					2,003,000	\$1,985,834.33

Certificates of Deposit

	CUSIP #	Issuer	Maturity Date	Rate	Face Value	Market Value
1	919853LL3	Valley National Bank	11/08/2024	5.250	126,000	125,924.40
2	95763PSV4	Western Alliance Bank	01/10/2025	5.250	135,000	134,897.40
					261,000	\$260,821.80

	<div style="border-top: 1px solid black;">Acct. Total</div> <div style="border-top: 1px solid black;">\$2,397,031.91</div>
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	<div style="border-top: 1px solid black;">Accrued interest</div> <div style="border-top: 1px solid black;">\$17,680.70</div>
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TOTAL CASH AND INVESTMENTS	<div style="border-top: 1px solid black;">\$2,414,712.61</div> <div style="border-top: 1px solid black;">\$2,414,712.61</div>
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PALMDALE RECYCLED WATER AUTHORITY
INVESTMENT REPORT
September 30, 2024

UBS Money Market Account (SS 30999)

Cash **\$0.00**

UBS Select Government Preferred Fund (Money Market) **\$218,580.75**

US Government Securities

	CUSIP #	Issuer	Maturity Date	Rate	Face Value	Market Value
1	91282CFQ9	US Treasury Note	10/31/2024	4.390	500,000	499,760.00
2	91282CDN8	US Treasury Note	12/15/2024	1.000	500,000	496,330.00
3	9128283P3	US Treasury Note	12/31/2024	2.250	289,000	287,266.00
4	9128283Z1	US Treasury Note	02/28/2025	2.750	415,000	412,194.60
					1,704,000	\$1,695,550.60

Certificates of Deposit

	CUSIP #	Issuer	Maturity Date	Rate	Face Value	Market Value
1	919853LL3	Valley National Bank	11/08/2024	5.250	126,000	126,061.74
2	95763PSV4	Western Alliance Bank	01/10/2025	5.250	135,000	135,160.65
3	89788HHU0	Truist Bank	01/25/2025	5.140	250,000	250,330.00
					511,000	\$511,552.39
					Acct. Total	\$2,425,683.74

Accrued interest **\$21,690.06**

TOTAL CASH AND INVESTMENTS **\$2,447,373.80**

PALMDALE RECYCLED WATER AUTHORITY

BOARD MEMORANDUM

DATE: October 14, 2024
TO: BOARD OF DIRECTORS
FROM: Dennis J. Hoffmeyer, Treasurer-Auditor, PRWA
VIA: Mr. Dennis LaMoreaux, Executive Director, PRWA

October 21, 2024
Board Meeting

RE: AGENDA ITEM NO 5.4 – BASIC FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS’ REPORT AND REQUIRED SUPPLEMENTAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2023

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, 2023.

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 1.25% or \$55,263 compared to the prior year.
- The Authority had 2023 operating revenue of \$60,899 as compared to 2022 operating revenue of \$105,587 primarily due to a reduction in water sales in 2023.
- The Authority’s operating expenses for 2023 increased \$5,341 from \$106,755 in 2022 to \$112,096 in 2023 due primarily to an increase of \$7,959 in source of supply expenses.

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, 2023.

PALMDALE RECYCLED WATER AUTHORITY
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Years Ended
December 31, 2023 and 2022

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PALMDALE RECYCLED WATER AUTHORITY
For the Years Ended December 31, 2023 and 2022
Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis.....	4
Basic Financial Statements:	
Balance Sheets	7
Statements of Revenues, Expenses and Changes in Net Position.....	8
Statements of Cash Flows.....	9
Notes to Financial Statements	10

OTHER INDEPENDENT AUDITORS' REPORTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17
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Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
Palmdale Recycled Water Authority
Palmdale, California

Opinion

We have audited the accompanying financial statements of the Palmdale Recycled Water Authority (Authority) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated June 15, 2024, 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 the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Murrieta, California
June 15, 2024

PALMDALE RECYCLED WATER AUTHORITY

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2023 and 2022

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 years ended December 31, 2023 and 2022. 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

- The Authority's net position increased by approximately 1.25% or \$55,263, compared to the prior year.
- The Authority had 2023 operating revenue of \$60,899 as compared to 2022 operating revenue of \$105,587 primarily due to a reduction in water sales in 2023.
- The Authority's operating expenses for 2023 increased \$5,341 from \$106,755 in 2022 to \$112,096 in 2023 due primarily to an increase of \$7,959 in source of supply expenses.

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 year ending December 31, 2023 and 2022. 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 \$4,468,828 as of December 31, 2023.

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 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 year ended December 31, 2023 net position increased by 1.25% or \$55,263.

PALMDALE RECYCLED WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2023 and 2022

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Balance Sheet

	2023	2022	Change
ASSETS			
Current assets	\$ 2,971,412	\$ 2,880,903	\$ 90,509
Capital assets, net (note 3)	1,535,454	1,588,861	(53,407)
Total assets	\$ 4,506,866	\$ 4,469,764	\$ 37,102
LIABILITIES			
Current liabilities	\$ 38,038	\$ 56,199	\$ (18,161)
Total liabilities	38,038	56,199	(18,161)
NET POSITION			
Investment in capital assets	1,535,454	1,588,861	(53,407)
Unrestricted	2,933,374	2,824,704	108,670
Total net position	4,468,828	4,413,565	55,263
Total liabilities and net position	\$ 4,506,866	\$ 4,469,764	\$ 37,102

The Authority's net position increased by approximately 1.25% or \$55,263 compared to the prior year.

Analysis of Revenues and Expenses

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

	2023	2022	Change
Operating revenues	\$ 60,899	\$ 105,587	\$ (44,688)
Operating expenses	112,096	106,755	5,341
Operating income	(51,197)	(1,168)	(50,029)
Non-operating revenues	106,460	9,769	96,691
Change in net position	55,263	8,601	\$ 46,662
Net position			
Beginning of year	4,413,565	4,404,964	
End of year	\$ 4,468,828	\$ 4,413,565	

PALMDALE RECYCLED WATER AUTHORITY

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2023 and 2022

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 2023 operating revenue of \$60,899 as compared to 2022 operating revenue of \$105,587 primarily due to a decrease in water sales in 2023.
- The Authority's operating expenses for 2023 increased \$5,341 from \$106,755 in 2022 to \$112,096 in 2023 due primarily to an increase of \$7,959 in source of supply expenses.

CAPITAL ASSETS

At the end of 2023, the Authority had \$1,535,454 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 the year 2024 will be about the same as year 2023. This is reflected in the Authority's budget for the 2024 calendar 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, 2023, 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 or (661) 947-4111.

PALMDALE RECYCLED WATER AUTHORITY*Balance Sheets**December 31, 2023 and 2022*

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents (note 2)	\$ 607,506	\$ 628,854
Investments (note 2)	2,333,387	2,236,589
Interest receivable	23,765	7,042
Accounts receivable	4,607	6,456
Prepaid expenses	2,147	1,962
Capital assets, net (note 3)	<u>1,535,454</u>	<u>1,588,861</u>
Total assets	<u><u>\$ 4,506,866</u></u>	<u><u>\$ 4,469,764</u></u>
LIABILITIES		
Accounts payable	\$ 33,038	\$ 19,755
Customer deposits	<u>5,000</u>	<u>36,444</u>
Total liabilities	<u>38,038</u>	<u>56,199</u>
NET POSITION		
Investment in capital assets	1,535,454	1,588,861
Unrestricted	<u>2,933,374</u>	<u>2,824,704</u>
Total net position	<u><u>4,468,828</u></u>	<u><u>4,413,565</u></u>
Total liabilities and net position	<u><u>\$ 4,506,866</u></u>	<u><u>\$ 4,469,764</u></u>

PALMDALE RECYCLED WATER AUTHORITY*Statements of Revenues Expenses and Changes in Net Position**For the Years Ended December 31, 2023 and 2022*

	<u>2023</u>	<u>2022</u>
Operating revenues		
Water sales	\$ 18,139	\$ 59,894
Meter and other revenue	<u>42,760</u>	<u>45,693</u>
Total operating revenues	<u>60,899</u>	<u>105,587</u>
Operating expenses		
Source of supply	29,966	22,007
General and administrative	28,723	31,341
Depreciation	<u>53,407</u>	<u>53,407</u>
Total operating expenses	<u>112,096</u>	<u>106,755</u>
Operating income(loss)	<u>(51,197)</u>	<u>(1,168)</u>
Non-operating revenues		
Investment earnings	<u>106,460</u>	<u>9,769</u>
Total non-operating revenues	<u>106,460</u>	<u>9,769</u>
Change in net position	55,263	8,601
Net position		
Beginning of year	<u>4,413,565</u>	<u>4,404,964</u>
End of year	<u>\$ 4,468,828</u>	<u>\$ 4,413,565</u>

PALMDALE RECYCLED WATER AUTHORITY*Statements of Cash Flows**For the Years Ended December 31, 2023 and 2022*

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from water and other revenue	\$ 31,119	\$ 118,048
Cash payments for operating expenses	<u>(45,406)</u>	<u>(70,985)</u>
Net cash provided by (used in) operating activities	<u>(14,287)</u>	<u>47,063</u>
Cash flows from investing activities:		
Purchases of investments	(4,122,085)	(2,508,615)
Sales of investments	4,084,012	2,178,000
Investment earnings	<u>31,012</u>	<u>19,476</u>
Net cash used in investing activities	<u>(7,061)</u>	<u>(311,139)</u>
Net decrease in cash and cash equivalents	<u>(21,348)</u>	<u>(264,076)</u>
Cash and cash equivalents:		
Beginning of year	<u>628,854</u>	<u>892,930</u>
End of year	<u><u>\$ 607,506</u></u>	<u><u>\$ 628,854</u></u>
Supplemental disclosure of cash flow information:		
Non-cash investing and financing activities:		
Change in unrealized gains/(losses) of investments	<u>\$ 58,725</u>	<u>\$ (10,864)</u>
	<u>2023</u>	<u>2022</u>
Reconciliation of operating income(loss) to net cash provided by operating activities:		
Operating income(loss)	\$ (51,197)	\$ (1,168)
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:		
Depreciation	53,407	53,407
(Increase) decrease in assets:		
Accounts receivable	1,849	1,904
Prepaid expenses	(185)	3,969
Increase (decrease) in liabilities:		
Accounts payable	13,283	(17,637)
Customer deposits	<u>(31,444)</u>	<u>6,588</u>
Net cash provided by (used in) operating activities	<u><u>\$ (14,287)</u></u>	<u><u>\$ 47,063</u></u>

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2023 and 2022

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.

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.

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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 Authority 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 Authority'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 life 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.

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.

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. There were no contributions made in 2023 or 2022.

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, 2023 and 2022, are classified on the balance sheet as follows:

<u>Description</u>	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 607,506	\$ 628,854
Investments	<u>2,333,387</u>	<u>2,236,589</u>
Total cash and investments	<u>\$ 2,940,893</u>	<u>\$ 2,865,443</u>

Cash and investments at December 31, 2023 and 2022, are reported at fair value and consisted of the following:

<u>Description</u>	<u>2023</u>	<u>2022</u>
Demand deposits with financial institutions	\$ 606,659	\$ 620,591
Money-market funds	847	8,263
Investments	<u>2,333,387</u>	<u>2,236,589</u>
Total cash and investments	<u>\$ 2,940,893</u>	<u>\$ 2,865,443</u>

Demand Deposits with Financial Institutions

At December 31, 2023 and 2022, the carrying amount of the Authority's demand deposits were \$606,659 and \$620,591, respectively, and the financial institution's balance were \$608,982 and \$620,591, 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.

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2023 and 2022

NOTE 2 – CASH AND INVESTMENTS (continued)

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 Authority considers money-market funds a cash equivalent due to their highly liquid nature and NAV of \$1 per share. As of December 31, 2023 and 2022, the Authority held \$847 and \$8,263 in money-market funds, respectively.

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, 2023, consisted of the following:

Type of Investments	Measurement Input	Credit Rating	2023 Fair Value	Maturity
				12 Months or Less
U.S. Treasury notes	Level 1	Exempt	\$ 1,582,111	\$ 1,582,111
Certificates-of-deposit	Level 1	Not Rated	751,276	751,276
Total investments			\$ 2,333,387	\$ 2,333,387

PALMDALE RECYCLED WATER AUTHORITY*Notes to Financial Statements**December 31, 2023 and 2022***NOTE 2 – CASH AND INVESTMENTS (continued)**

Maturities and credit ratings of investments held at December 31, 2022, consisted of the following:

<u>Type of Investments</u>	<u>Measurement Input</u>	<u>Credit Rating</u>	<u>2022 Fair Value</u>	<u>Maturity</u>
				<u>12 Months or Less</u>
U.S. Treasury bill	Level 1	Exempt	\$ 659,311	\$ 659,311
U.S. Treasury notes	Level 1	Exempt	664,782	664,782
Certificates-of-deposit	Level 1	Not Rated	912,496	912,496
Total investments			<u><u>\$ 2,236,589</u></u>	<u><u>\$ 2,236,589</u></u>

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, 2023 and 2022, 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, 2023, the Authority had the following investments that represented more than five percent of the Authority's net investment balance.

<u>Investments with Maturity Dates</u>	<u>2023 Balance</u>	<u>Percentage of Investments</u>
U.S. Treasury note – February 29, 2024	\$ 380,675	16.31%
U.S. Treasury note – June 30, 2024	497,733	21.33%
U.S. Treasury note – August 31, 2024	205,833	8.82%
U.S. Treasury note – October 31, 2024	497,870	21.34%
Certificate-of-deposit – March 4, 2024	124,047	5.32%
Certificate-of-deposit – March 14, 2024	115,999	4.97%
Certificate-of-deposit – March 22, 2024	125,056	5.36%
Certificate-of-deposit – April 1, 2024	132,065	5.66%
Certificate-of-deposit – May 1, 2024	110,005	4.71%
Certificate-of-deposit – September 27, 2024	144,104	6.18%
Total	<u><u>\$ 2,333,387</u></u>	<u><u>100.00%</u></u>

PALMDALE RECYCLED WATER AUTHORITY*Notes to Financial Statements**December 31, 2023 and 2022***NOTE 2 – CASH AND INVESTMENTS (continued)**

At December 31, 2022, the Authority had the following investments that represented more than five percent of the Authority's net investment balance.

<u>Investments with Maturity Dates</u>	<u>2022 Balance</u>	<u>Percentage of Investments</u>
U.S. Treasury bill – February 23, 2023	\$ 496,990	22.22%
U.S. Treasury bill – March 30, 2023	162,321	7.26%
U.S. Treasury note – February 28, 2023	299,133	13.37%
U.S. Treasury note – May 31, 2023	365,649	16.35%
Certificate-of-deposit – January 17, 2023	99,892	4.47%
Certificate-of-deposit – February 28, 2023	198,908	8.89%
Certificate-of-deposit – March 9, 2023	248,457	11.11%
Certificate-of-deposit – May 10, 2023	114,959	5.14%
Certificate-of-deposit – June 8, 2023	250,280	11.19%
Total	<u><u>\$ 2,236,589</u></u>	<u><u>100.00%</u></u>

NOTE 3 – CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

Capital asset activity for the year ended December 31, 2023, was as follows:

<u>Description</u>	<u>Balance Jan 1, 2023</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance Dec 31, 2023</u>
Depreciable assets:				
Recycled water distribution system	\$ 2,136,283	\$ -	\$ -	\$ 2,136,283
Accumulated depreciation:				
Recycled water distribution system	(547,422)	(53,407)	-	(600,829)
Total capital assets, net	<u><u>\$ 1,588,861</u></u>	<u><u>\$ (53,407)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,535,454</u></u>

Capital asset activity for the year ended December 31, 2022, was as follows:

<u>Description</u>	<u>Balance Jan 1, 2022</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance Dec 31, 2022</u>
Depreciable assets:				
Recycled water distribution system	\$ 2,136,283	\$ -	\$ -	\$ 2,136,283
Accumulated depreciation:				
Recycled water distribution system	(494,015)	(53,407)	-	(547,422)
Total capital assets, net	<u><u>\$ 1,642,268</u></u>	<u><u>\$ (53,407)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,588,861</u></u>

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2023 and 2022

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

Excluded Leases – Short-Term Leases and De Minimis Leases

The Authority does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12-months (or less), including any options to extend, regardless of their probability of being exercised.

Also, *de minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

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.

NOTE 7 – SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through June 15, 2024, the date which the financial statements were available to be issued.

Other Independent Auditors' Reports



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

Board of Directors
Palmdale 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 the Palmdale Recycled Water Authority (Authority) which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 15, 2024.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 15, 2024

PALMDALE RECYCLED WATER AUTHORITY BOARD MEMORANDUM

DATE: October 14, 2024 **October 21, 2024**
TO: BOARD OF DIRECTORS **Board Meeting**
FROM: Dennis J. Hoffmeyer, Treasurer-Auditor, PRWA
VIA: Mr. Dennis LaMoreaux, Executive Director, PRWA

**RE: AGENDA ITEM NO 5.5 – RESOLUTION NO. PRWA 2024-002 BEING A
RESOLUTION OF THE PALMDALE RECYCLED WATER AUTHORITY
ESTABLISHING ITS INVESTMENT POLICY FOR CALENDAR YEAR 2025**

Recommendation:

Palmdale Recycled Water Authority (PRWA) staff recommends the Board of Directors approve Resolution No. PRWA 2024-002 establishing its Investment Policy for the calendar year 2025.

Background:

It is required by law for the Authority to adopt an annual Investment Policy. The Policy is to invest funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all statutes governing the investment of District funds with the primary objectives of the investment activities being safety, liquidity, and return on investments.

Financial Impact:

None

Supporting Documents:

Resolution No. PRWA 2024-002

**PALMDALE RECYCLED WATER AUTHORITY
RESOLUTION NO. PRWA 2024-002**

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE PALMDALE RECYCLED WATER AUTHORITY
UPDATING ITS INVESTMENT POLICY**

1.0 POLICY

WHEREAS; ; the Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern; and

WHEREAS; the legislative body of a local agency may invest monies not required for the immediate necessities of the local agency in accordance with the provisions of California Government Code Sections 5922 and 53601 et seq.; and

WHEREAS; the Treasurer/Auditor of the Palmdale Recycled Water Authority ("Authority") shall annually prepare and submit a statement of investment policy and such policy, and any changes thereto, and report same to the be considered by the Board of Directors at a public meeting;

NOW THEREFORE; it shall be the policy of the Authority to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Authority and conforming to all statutes governing the investment of Authority funds.

2.0 SCOPE

This investment policy applies to all investment activities and financial assets of the Authority. These funds are accounted for in the annual authority audit.

3.0 PRUDENCE

The standard of prudence to be used by investment officers shall be the "prudent investor" standard, pursuant to California Government Code 53600.3, and shall be applied in the context of managing an overall portfolio. Persons authorized to make investment decisions on behalf of local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard. Investments shall be made with judgment and care, under circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Authority, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 OBJECTIVES

When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

1. Safety: Safety of principal is the foremost objective of the investment program. Investments of the Authority shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the Authority will diversify its investments by investing funds among a variety of securities with independent returns.

2. Liquidity: The investment portfolio will remain sufficiently liquid to enable the Authority to meet all operating requirements which might be reasonably anticipated.

3. Return on Investments: The investment portfolio shall be designed with the objective of attaining a acceptable rate of return throughout budgetary and economic cycles, taking into account the Authority's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 DELEGATION OF AUTHORITY

Pursuant to California Government Code 53607, the authority to invest public funds of the Authority is expressly delegated to the Board of Directors of the Authority. The Board re-delegates the investment function to the Board Chairman or Vice Chairman and the Treasurer/Auditor.

The investment of the Authority's monies is annually delegated by the Board of Directors to the Board Chairman or Vice Chairman and Treasurer/Auditor who shall thereafter assume full responsibility for those transactions until the delegation is revoked or expires. The Board Chairman or Vice Chairman shall delegate the day-to-day operations of investing to the Treasurer/Auditor, but not the responsibility for the overall investment program. All transactions will be reviewed by the Board of Directors on a monthly basis to assure compliance with the Investment Policy. (California Government Code Section 53607.)

6.0 ETHICS AND CONFLICTS OF INTEREST

The Board, officers and employees of the Authority involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or which could impair their ability to make impartial investment decisions.

7.0 AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Treasurer/Auditor will maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience and minimal capitalization authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment and financial advisory services

in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For brokers/dealers of government securities and other investments, the Authority shall select only broker/dealers who are licensed and in good standing with the California Department of Business Oversight, the Securities and Exchange Commission, the Financial Industry Regulatory Authority or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Treasurer/Auditor shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the Authority's account with that firm has reviewed the Authority's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the Authority that are appropriate under the terms and conditions of this Investment Policy.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

The Authority is empowered by California Government Code 53601 et seq. to invest in the following:

- a. Bonds issued by the Authority.
- b. United States Treasury Bills, Notes and Bonds.
- c. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by, or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
- d. Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 45% of the Authority's money which may be invested pursuant to this policy.
- e. Monies held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

- f. Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California, including pooled investment accounts sponsored by the State of California, County Treasurers, other local agencies or Joint Powers Agencies.

Such investments shall be limited to securities that at the time of the investment have a term remaining to maturity of five years or less, or as provided above.

Such investments with a forward settlement date exceeding 45 days from the time of investment shall be prohibited from purchase.

The Authority shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

9.0 COLLATERALIZATION

All certificates of deposit must be collateralized by United States Treasury Obligations. Collateral must be held by a third party trustee and valued on a monthly basis. The percentage of collateralizations on repurchase and reverse agreements will adhere to the amount required under California Government Code 53601(j)(2).

10.0 SAFEKEEPING AND CUSTODY

All security transactions entered into by the Authority shall be conducted on delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to the Authority by book entry, physical delivery or by third party custodial agreement evidence by safekeeping receipts.

11.0 DIVERSIFICATION

The Authority will diversify its investments by security type and institution. Assets shall be diversified to mitigate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities.

Diversification strategies shall be reviewed and revised periodically. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- a. Portfolio maturity dates shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.
- b. Maturities selected shall provide for stability of income and liquidity.
- c. Disbursement and payroll dates shall be covered through maturities of investments, marketable United States Treasury bills or other cash equivalent instruments such as money market mutual funds.

12.0 REPORTING

The Treasurer/Auditor shall submit to each member of the Board an investment report at least quarterly. Pursuant to California Government Code 53646, the report shall include 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 Authority by third party contracted managers. The report will also include the source of the portfolio valuation. For funds which are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy, and (2) the Authority will meet its expenditure obligations for the next six months. The Treasurer/Auditor shall maintain a complete and timely record of all investment transactions.

13.0 INVESTMENT POLICY ADOPTION

This Investment Policy shall be adopted by resolution of the Authority. Moreover, the Policy shall be reviewed on an annual basis, and modifications must be approved by the Board.

PASSED, APPROVED, and ADOPTED this 21st day of October 2024 by the following vote:

AYES: _____

NOES: _____

ABSTAIN: _____ ABSENT: _____

Austin Bishop, Chair

ATTEST:

Roxanne Faber,
Authority Secretary

Approved as to form:

William P. Curley, III
Authority Counsel

PALMDALE RECYCLED WATER AUTHORITY BOARD MEMORANDUM

DATE: October 14, 2024
TO: BOARD OF DIRECTORS
FROM: Dennis Hoffmeyer, Treasurer-Auditor, PRWA
VIA: Mr. Dennis LaMoreaux, Executive Director, PRWA

October 21, 2024
Board Meeting

**RE: AGENDA ITEM NO 6.1 – CONSIDERATION AND POSSIBLE ACTION ON
RESOLUTION NO. 2024-001 AUTHORIZING THE ADOPTION OF THE PALMDALE
RECYCLED WATER AUTHORITY 2025 ANNUAL BUDGET**

Recommendation:

Palmdale Recycled Water Authority (PRWA) staff recommends approving the 2025 annual budget as presented in the 2025 Budget Document and approve Resolution No. PRWA 2024-001 authorizing the adoption of the Palmdale Recycled Water Authority 2025 Annual Budget.

Background:

A part of the Palmdale Recycled Water Authority's duties is to create an annual operating budget. The 2025 Budget continues with the removal of the contributions by both agencies as it has been determined that contributions this year are not needed. The budget includes fund analysis necessary to move forward with potential cost sharing related to the expansion of the recycled water system in Avenue Q.

Financial Impact:

As set forth in the 2025 Budget Document, the fiscal year is projected to result in \$1,587,701 in unappropriated reserves. Also, shown are the estimated effects to the cash reserves for the Avenue Q cost sharing project approved by the board.

Supporting Documents:

Resolution No. PRWA 2024-001
2025 Budget Document (Exhibit A to Resolution No. PRWA 2024-001)

**PALMDALE RECYCLED WATER AUTHORITY
RESOLUTION NO. PRWA 2024-001**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE PALMDALE RECYCLED
WATER AUTHORITY AUTHORIZING THE ADOPTION OF THE PALMDALE
RECYCLED WATER AUTHORITY 2025 BUDGET**

WHEREAS, The Palmdale Recycled Water Authority has identified the need for a 2025 Budget, and

WHEREAS, The Palmdale Recycled Water Authority Board reviewed the Budget for calendar year 2025, and

WHEREAS, the Palmdale Recycled Water Authority considered the budget as submitted and made all changes and amendments thereto which said Authority, desired to make therein; and

WHEREAS, individual project costs have been proportionately budgeted to the respective project areas based upon the benefit attributable to the targeted project area including improving inadequate public improvements and public facilities, improving and correcting depreciated values; and,

WHEREAS, the Palmdale Recycled Water Authority has heretofore raised sufficient revenues to finance and balance said budget.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Palmdale Recycled Water Authority:

SECTION 1: The original of the Budget of the Palmdale Recycled Water Authority shall be placed on file in the office of the Authority Clerk and shall be open to public inspection.

SECTION 2: The Palmdale Recycled Water Authority hereby approves all of the adjustments to the calendar year 2025 revenues and expenditures as presented in the calendar year 2025 budget document.

SECTION 3: The Budget of the Palmdale Recycled Water Authority is hereby approved and adopted. In adopting said budget the Authority Board approved the specified amounts for each of the various programs and accounts set forth.

SECTION 4: The Authority Treasurer is hereby authorized and instructed to take all steps necessary to implement this resolution in accordance with the provisions of the budget document.

SECTION 5: Without prior approval of the Authority Board, the Executive Director shall have authority to transfer up to \$25,000 from program to program, except for shifts in appropriations relating to personnel. Any transfer of more than such amount shall be approved by the Authority Board.

SECTION 6: The Authority Treasurer, with the approval of the Executive Director shall approve the Encumbrances and Continuing Appropriations from the Authority's budget for calendar year 2025.

SECTION 7: The Budget for calendar year 2025, as submitted, amended, modified, revised, corrected, adopted, and filed by the Authority shall be the calendar year 2025 Budget for the Palmdale Recycled Water Authority. The Budget is subject to the requirements of Article XIII B of the California Constitution.

SECTION 8: The Clerk of the Authority shall certify to the adoption of this Resolution and enter it into the official records of the Authority.

PASSED, APPROVED, and ADOPTED this 21st day of October 2024 by the following vote:

AYES: _____

NOES: _____

ABSTAIN: _____ ABSENT: _____

Austin Bishop, Chair

ATTEST:

Roxanne Faber,
Authority Secretary

Approved as to form:

William P. Curley, III
Authority Counsel

PALMDALE RECYCLED WATER AUTHORITY

Proposed Budget - CY 2025

		CY 2021 ACTUAL	CY 2022 ACTUAL	CY 2023 ACTUAL	CY 2024 PROJECTED	CY 2025 PROPOSED
Acct. #	Revenues:					
1-00-3100-100	Contribution - Palmdale Water District	\$ -	\$ -	\$ -	\$ -	\$ -
1-00-3100-200	Contribution - City of Palmdale	-	-	-	-	-
1-00-3000-000	Revenue - Water Sales	91,404	59,894	19,139	18,850	20,000
1-00-3050-000	Revenue - Meter Fees	35,873	44,983	41,454	23,864	26,000
1-00-3075-000	Revenue - Miscellaneous Fees	9,218	709	1,750	300	500
1-00-3150-000	Grants	-	-	-	-	-
1-00-3500-000	Interest Earnings (excludes Market Adj. on Investments)	635	20,633	47,736	73,417	50,000
	Total Revenue	<u>\$ 137,130</u>	<u>\$ 126,220</u>	<u>\$ 110,079</u>	<u>\$ 116,431</u>	<u>\$ 96,500</u>
	Expenses:					
1-00-4000-000	Public Representative - Meetings & Travel	\$ 2,229	\$ 600	\$ 600	\$ 450	\$ 2,500
1-00-4010-000	Payroll Tax Expense (Employer)	69	46	46	34	200
1-00-4500-100	Depreciation-General	53,407	53,407	53,407	53,407	53,407
1-00-5000-000	Banking Fees	731	710	158	50	350
1-00-5025-000	Provision for Bad Debt	-	-	1,841	-	500
1-00-5100-000	Insurance	7,371	7,773	8,402	9,588	10,000
1-00-5200-000	Memberships	4,102	4,293	5,658	6,100	6,250
1-00-5300-000	Marketing & Outreach	6,405	162	-	-	500
1-00-5500-000	Travel & Meetings	-	-	-	-	-
1-00-5600-000	Permits & Fees	-	-	2,922	-	-
1-00-6000-000	Purchased Water	31,293	22,007	29,966	33,000	35,000
1-00-6500-000	Materials & Supplies	13,689	-	597	350	1,000
1-00-6600-000	Maint. & Rep. - Water System	2,328	9,258	-	13,500	7,500
1-00-8000-150	Contract Services - Professional Services	5,138	-	-	-	-
1-00-8000-200	Contract Services - Financial Audit	8,500	8,500	8,500	8,500	8,500
	Total Expenses	<u>\$ 135,261</u>	<u>\$ 106,756</u>	<u>\$ 112,096</u>	<u>\$ 124,979</u>	<u>\$ 125,707</u>
				Net Income/(Expense):	<u>\$ (8,548)</u>	<u>\$ (29,207)</u>
	Change in Net Position at December 31	<u>\$ 1,627,325</u>	<u>\$ 1,646,789</u>	<u>\$ 1,644,772</u>	<u>\$ 1,616,908</u>	<u>\$ 1,587,701</u>
	Cash and Investments Balance (December 31, 2024 - Estimated)					\$ 3,064,500
	Capital Project Expenditure (Cost Sharing Estimate - Avenue Q Pipeline Project)					(550,000)
	Changes in Revenues/(Expenses) for the year (Estimated)					24,200
	Cash and Investments Balance (December 31, 2025 - Estimated)					<u>\$ 2,538,700</u>