

**PALMDALE WATER DISTRICT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Years Ended
December 31, 2024 and 2023**

NIGRO
& NIGRO^{PC}

PALMDALE WATER DISTRICT

For the Years Ended December 31, 2024 and 2023

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Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
Palmdale Water District
Palmdale, California

Opinion

We have audited the accompanying basic financial statements of Palmdale Water District, which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Palmdale Water District as of December 31, 2024 and 2023, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. 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 District 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.

Change in Accounting Principle

As described in Notes 1, 8, 14 and 17 to the financial statements, as of January 1, 2024, the District adopted new accounting guidance, GASB Statement No. 101, Compensated Absences and Statement No. 102, Certain Risk Disclosures. Our opinion is not modified with respect to these matters.

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated June 23, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Murrieta, California
June 23, 2025

PALMDALE WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2024 and 2023

Management's Discussion and Analysis (MD&A) offers readers of Palmdale Water District's financial statements a narrative overview of the District's financial activities for the years ended December 31, 2024 and 2023. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In 2024, the District's net position increased 9.06% or \$9,977,024 from the prior year's net position of \$110,167,706 to \$120,144,730, as a result of this year's operations.
- In 2023, the District's net position increased 2.33% or \$2,504,728 from the prior year's net position of \$107,662,978 to \$110,167,706, as a result of this year's operations, as well as a prior period adjustment due to a change in accounting principle.
- In 2024, the District's operating revenues increased by 7.83% or \$2,708,360 from \$34,573,330 to \$37,281,690, from the prior year, primarily due to an increase in Water sales – commodity charge of \$877,293 as well as an increase in monthly meter service charges of \$1,864,208.
- In 2023, the District's operating revenues increased by 10.39% or \$3,252,891 from \$31,320,439 to \$34,573,330, from the prior year, primarily due to an increase in Water sales – commodity charge of \$2,040,267 as well as an increase in monthly meter service charges of \$1,674,195.
- In 2024, the District's operating expenses before overhead absorption and depreciation expense decreased by 4.34% or \$1,396,953 from \$32,182,684 to \$30,785,731, from the prior year, primarily due to a decrease in source of supply – water purchases of \$2,163,263.
- In 2023, the District's operating expenses before overhead absorption and depreciation expense increased by 21.44% or \$5,680,743 from \$26,501,941 to \$32,182,684, from the prior year, primarily due to an increase in source of supply – water purchases of \$2,380,656 as well as an increase of \$1,610,808 in administration related expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements accompanying this MD&A present the net position, results of operations, and changes in cash flow during the years ending December 31, 2024 and 2023. These financial statements have been prepared using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

PALMDALE WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2024 and 2023

REQUIRED FINANCIAL STATEMENTS

Balance Sheets

The Balance Sheet presents information on the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, zoning, and new or changed legislation or regulations also need to be considered when establishing financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflow of resources, resulting in a net position of \$120,144,730 and \$110,167,706 as of December 31, 2024 and 2023, respectively.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the District's net position changed during the year. All of the year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the results of the District's operations for the year and can be used to determine if the District has successfully recovered all of its costs through user fees and other charges. Operating revenues and expenses are related to the District's core activities. Non-operating revenues and expenses are not directly related to the core activities of the District (e.g. interest income, interest expense, property taxes, gain or loss on sale of assets). For the year ended December 31, 2024, net position from operations increased \$9,977,024. For the year ended December 31, 2023, net position from operations increased \$2,504,728.

Statement of Cash Flows

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

District cash flows for the years have been categorized into one of the following activities: operating, noncapital financing, capital and related financing, or investing. For 2024, the total of these categories represents a increase in cash and cash equivalents of \$18,273,887, which is added to the beginning cash and cash equivalents of \$16,996,946, to arrive at ending cash and cash equivalents of \$35,270,833. For 2023, the total of these categories represents a increase in cash and cash equivalents of \$5,556,307, which is added to the beginning cash and cash equivalents of \$11,440,639, to arrive at ending cash and cash equivalents of \$16,996,946.

PALMDALE WATER DISTRICT

Management's Discussion and Analysis (Unaudited) *For the Years Ended December 31, 2024 and 2023*

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Balance Sheets

	Balance, Dec. 31, 2024	Balance, Dec. 31, 2023	Change	Balance, Dec. 31, 2022	Change
Assets:					
Current assets	\$ 34,090,057	\$ 27,874,940	\$ 6,215,117	\$ 26,645,882	\$ 1,229,058
Non-current assets	30,058,905	16,882,311	13,176,594	10,311,208	6,571,103
Capital assets, net	199,803,335	185,811,220	13,992,115	179,800,530	6,010,690
Total assets	263,952,297	230,568,471	33,383,826	216,757,620	13,810,851
Deferred outflows of resources	8,256,212	9,004,118	(747,906)	11,706,450	(2,702,332)
Total assets and deferred outflows	\$ 272,208,509	\$ 239,572,589	\$ 32,635,920	\$ 228,464,070	\$ 11,108,519
Liabilities:					
Current liabilities	\$ 14,182,122	\$ 11,467,697	\$ 2,714,425	\$ 14,724,327	\$ (3,256,630)
Non-current liabilities	127,782,322	107,486,802	20,295,520	96,042,029	11,444,773
Total liabilities	141,964,444	118,954,499	23,009,945	110,766,356	8,188,143
Deferred inflows of resources	10,099,335	10,450,384	(351,049)	10,034,736	415,648
Net position:					
Net investment in capital assets	126,964,416	121,021,039	5,943,377	119,416,779	1,604,260
Restricted	2,255,347	2,234,414	20,933	2,206,783	27,631
Unrestricted	(9,075,033)	(13,087,747)	4,012,714	(13,960,584)	872,837
Total net position	120,144,730	110,167,706	9,977,024	107,662,978	2,504,728
Total liabilities, deferred inflows and net position	\$ 272,208,509	\$ 239,572,589	\$ 32,635,920	\$ 228,464,070	\$ 11,108,519

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

The District's Net Position as of December 31, 2024, totaled \$120,144,730 compared with \$110,167,706 as of December 31, 2023, an increase of 9.06%.

The District's Net Position as of December 31, 2023, totaled \$110,167,706 compared with \$107,662,978 as of December 31, 2022, an increase of 2.33%.

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

PALMDALE WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2024 and 2023

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Analysis of Revenues and Expenses

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

	Balance, Dec. 31, 2024	Balance, Dec. 31, 2023	Change	Balance, Dec. 31, 2022	Change
Operating revenues	\$ 37,281,690	\$ 34,573,330	\$ 2,708,360	\$ 31,320,439	\$ 3,252,891
Operating expenses	(30,785,731)	(32,182,684)	1,396,953	(26,501,941)	(5,680,743)
Operating income before overhead absorption	6,495,959	2,390,646	4,105,313	4,818,498	(2,427,852)
Overhead absorption	1,000,439	202,747	797,692	(2,057,284)	2,260,031
Operating income before depreciation	7,496,398	2,593,393	4,903,005	2,761,214	(167,821)
Depreciation expense	(5,748,358)	(5,725,517)	(22,841)	(5,359,892)	(365,625)
Operating income(loss) after depreciation	1,748,040	(3,132,124)	4,880,164	(2,598,678)	(533,446)
Non-operating revenues(expenses), net	5,940,581	3,538,459	2,402,122	4,770,576	(1,232,117)
Net income(loss) before capital contributions	7,688,621	406,335	7,282,286	2,171,898	(1,765,563)
Capital contributions	2,288,403	2,098,393	190,010	5,562,268	(3,463,875)
Change in net position	9,977,024	2,504,728	7,472,296	7,734,166	(5,229,438)
Net position:					
Beginning of year, as restated	110,167,706	107,662,978	2,504,728	99,917,008	7,745,970
Prior period adjustment	-	-	-	11,804	(11,804)
End of year	\$ 120,144,730	\$ 110,167,706	\$ 9,977,024	\$ 107,662,978	\$ 2,504,728

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position increased from operations by \$9,977,024, \$2,504,728, and \$7,734,166, for the years ended December 31, 2024, 2023, and 2022 respectively.

PALMDALE WATER DISTRICT*Management's Discussion and Analysis (Unaudited)**For the Years Ended December 31, 2024 and 2023***FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)****Total Revenues**

	Balance, Dec. 31, 2024	Balance, Dec. 31, 2023	Change	Balance, Dec. 31, 2022	Change
Operating revenues:					
Water sales – commodity charge	\$ 14,619,161	\$ 13,741,868	\$ 877,293	\$ 11,701,601	\$ 2,040,267
Water sales – wholesale	273,056	210,495	62,561	500,102	(289,607)
Monthly meter service charge	20,340,155	18,475,947	1,864,208	16,801,752	1,674,195
Water quality fees	416,112	511,918	(95,806)	623,061	(111,143)
Elevation fees	382,474	320,606	61,868	357,741	(37,135)
Other charges for services	1,250,732	1,312,496	(61,764)	1,336,182	(23,686)
Total operating revenues	37,281,690	34,573,330	2,708,360	31,320,439	3,252,891
Non-operating:					
Property taxes – ad valorem	3,528,364	2,909,289	619,075	2,640,066	269,223
Property tax assessment for State Water Project	7,268,052	6,009,593	1,258,459	7,169,879	(1,160,286)
Successor agency component of property taxes	980,220	998,755	(18,535)	836,598	162,157
Rental revenue – cellular towers	274,193	185,449	88,744	193,519	(8,070)
Investment earnings	987,740	573,644	414,096	97,234	476,410
Change in investment – PRWA	20,933	27,632	(6,699)	4,301	23,331
Legal and insurance refunds/settlements	902	48,000	(47,098)	74,172	(26,172)
Department of Water Resources – FCR	443,653	388,705	54,948	349,339	39,366
Other non-operating revenues	1,222,444	123,035	1,099,409	162,400	(39,365)
Total non-operating	14,726,501	11,264,102	3,462,399	11,527,508	(263,406)
Total revenues	\$ 52,008,191	\$ 45,837,432	\$ 6,170,759	\$ 42,847,947	\$ 2,989,485

In 2024, the District's operating revenues increased by 7.83% or \$2,708,360 from \$34,573,330 to \$37,281,690, from the prior year, primarily due to an increase in Water sales – commodity charge of \$877,293 as well as an increase in monthly meter service charges of \$1,864,208.

In 2023, the District's operating revenues increased by 10.39% or \$3,252,891 from \$31,320,439 to \$34,573,330, from the prior year, primarily due to an increase in Water sales – commodity charge of \$2,040,267 as well as an increase in monthly meter service charges of \$1,674,195.

PALMDALE WATER DISTRICT*Management's Discussion and Analysis (Unaudited)**For the Years Ended December 31, 2024 and 2023***FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)****Total Expenses**

	Balance, Dec. 31, 2024	Balance, Dec. 31, 2023	Change	Balance, Dec. 31, 2022	Change
Operating expenses:					
Source of supply – water purchases	\$ 2,554,457	\$ 4,717,720	\$ (2,163,263)	\$ 2,337,064	\$ 2,380,656
Operations and production	5,174,695	4,463,854	710,841	3,626,458	837,396
Facilities	7,732,070	7,875,231	(143,161)	7,662,975	212,256
Engineering	2,020,555	2,022,322	(1,767)	1,691,545	330,777
Water conservation	364,375	428,286	(63,911)	509,733	(81,447)
Administration	8,834,484	8,936,634	(102,150)	7,325,826	1,610,808
Finance and customer care	4,105,095	3,738,637	366,458	3,348,340	390,297
Operating expenses before overhead absorption	30,785,731	32,182,684	(1,396,953)	26,501,941	5,680,743
Overhead absorption	(1,000,439)	(202,747)	(797,692)	2,057,284	(2,260,031)
Operating expenses before depreciation	29,785,292	31,979,937	(2,194,645)	28,559,225	3,420,712
Depreciation and amortization	5,748,358	5,725,517	22,841	5,359,892	365,625
Total operating expenses	35,533,650	37,705,454	(2,171,804)	33,919,117	3,786,337
Non-operating expenses:					
Cost of debt issuance	292,810	327,759	(34,949)	7,500	320,259
State Water Project amortization expense	4,985,344	4,492,670	492,674	4,008,232	484,438
Rate assistance program expense	200,320	171,546	28,774	304,008	(132,462)
Interest expense – long-term debt	3,307,446	2,733,668	573,778	2,437,192	296,476
Total non-operating	8,785,920	7,725,643	1,060,277	6,756,932	968,711
Total expenses	\$ 44,319,570	\$ 45,431,097	\$ (1,111,527)	\$ 40,676,049	\$ 4,755,048

In 2024, the District's operating expenses before overhead absorption and depreciation expense decreased by 4.34% or \$1,396,953 from \$32,182,684 to \$30,785,731, from the prior year, primarily due to a decrease in source of supply – water purchases of \$2,163,263.

In 2023, the District's operating expenses before overhead absorption and depreciation expense increased by 21.44% or \$5,680,743 from \$26,501,941 to \$32,182,684, from the prior year, primarily due to an increase in source of supply – water purchases of \$2,380,656 as well as an increase of \$1,610,808 in administration related expenses.

PALMDALE WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2024 and 2023

CAPITAL ASSETS

At the end of 2024, 2023 and 2022, the District's investment in capital assets was \$199,803,335, \$185,811,219, and \$179,800,530, net of accumulated depreciation, respectively. Capital asset additions during the years ended December 31, 2024, and 2023 were \$17,134,506 and \$9,774,018, for various projects and equipment. (More detailed information about capital assets can be found in Note 6 of the financial statements). Total depreciation expense was \$5,595,267 and \$5,594,181 for the fiscal years ended December 31, 2024, and 2023, respectively.

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

Capital assets:	Balance, Dec. 31, 2024	Balance, Dec. 31, 2023	Balance, Dec. 31, 2022
Non-depreciable assets	\$ 34,860,737	\$ 22,354,621	\$ 21,316,338
Depreciable assets	383,767,247	372,436,615	358,125,376
Accumulated depreciation and amortization	(218,824,649)	(208,980,017)	(199,641,184)
Total capital assets, net	\$ 199,803,335	\$ 185,811,219	\$ 179,800,530

LONG-TERM DEBT

At year-end the District had \$101.2 million in direct finance purchases, loan payables, and revenue bonds payables – an increase of \$21,115,370 and \$8,785,017 in 2024 and 2023 respectively – as shown in Table A-6. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements).

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

Long-term debt:	Balance, Dec. 31, 2024	Balance, Dec. 31, 2023	Balance, Dec. 31, 2022
Direct finance purchase	\$ 1,489,645	\$ 1,952,719	\$ 2,400,000
Loan payable – 2012	-	-	1,342,628
Revenue bonds payable, net – 2013	-	-	10,359,167
Revenue bonds payable, net – 2018	12,894,835	13,206,881	13,508,927
Revenue refunding bonds – non-taxable – 2020	8,925,578	8,939,354	8,952,691
Revenue refunding bonds – taxable – 2020	13,855,000	14,025,000	14,190,000
Revenue bonds – 2021A	10,167,392	10,196,636	10,225,880
Revenue refunding bonds – 2021	9,933,930	10,146,820	10,356,500
Revenue bonds payable, net - 2023	21,639,000	21,653,400	-
Revenue bonds payable, net - 2024	22,330,800	-	-
Total	\$ 101,236,180	\$ 80,120,810	\$ 71,335,793

PALMDALE WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2024 and 2023

CONDITIONS AFFECTING CURRENT FINANCIAL POSITION

- The State's 20% drought restrictions were lifted in April of 2023. Since then, water consumption has increased, contributing to stronger operating revenues in 2024.
- The District has undertaken a large-scale meter changeout program, focusing on routes with older meters and equipment issues to improve reading accuracy as set forth by AWWA standards, which has led to more accurate readings and increased water consumption revenue.
- Billed water consumption for the year ended December 31, 2024 was at 15,939-acre feet compared to 14,702-acre feet for the year ended December 31, 2023.
- The District's assessed valuation has increased to \$2.73 billion for FY 2023/2024 from \$2.53 billion for FY 2022/2023.
- The District received \$3.5 million in ad valorem property tax revenue for 2024.
- The District received \$980,220 in successor agency component property taxes for 2024.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

PALMDALE WATER DISTRICT*Balance Sheets**December 31, 2024 and 2023*

ASSETS	2024	2023
Current assets:		Restated
Cash and cash equivalents (Note 2)	\$ 7,607,716	\$ 2,615,777
Investments (Note 2)	11,442,432	12,937,858
Accrued interest receivable	130,337	84,297
Accounts receivable – water sales and services, net (Note 3)	3,004,734	2,673,926
Accounts receivable – property taxes and assessments	6,802,631	4,922,573
Lease receivable (Note 4)	126,287	113,735
Accounts receivable – other	2,153,074	1,906,172
Materials and supplies inventory	1,876,904	1,852,279
Prepaid expenses	945,942	768,323
Total current assets	34,090,057	27,874,940
Non-current assets:		
Restricted – cash and cash equivalents (Note 2)	27,663,117	14,381,169
Lease receivable (Note 4)	140,441	266,728
Investment in Palmdale Recycled Water Authority (Note 5)	2,255,347	2,234,414
Capital assets – not being depreciated (Note 6)	34,860,737	22,354,621
Capital assets – being depreciated, net (Note 6)	164,942,598	163,456,599
Total non-current assets	229,862,240	202,693,531
Total assets	263,952,297	230,568,471
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt defeasance, net (Note 9)	1,138,500	1,178,100
Deferred amounts related to net OPEB obligation (Note 10)	3,285,485	2,477,984
Deferred amounts related to net pension liability (Note 11)	3,832,227	5,348,034
Total deferred outflows of resources	8,256,212	9,004,118
Total assets and deferred outflows of resources	\$ 272,208,509	\$ 239,572,589

PALMDALE WATER DISTRICT*Balance Sheets (continued)**December 31, 2024 and 2023*

LIABILITIES	2024	2023
Current liabilities:		Restated
Accounts payable and accrued expenses	\$ 3,547,293	\$ 3,594,958
Customer deposits for water service	4,066,170	3,879,644
Construction and developer deposits	1,726,157	1,676,656
Accrued interest payable	909,429	690,229
Long-term liabilities – due within one year:		
Compensated absences (Note 8)	405,890	382,449
Right-to-use lease payable (Note 7)	147,844	109,022
Direct finance purchase (Note 9)	479,423	463,073
Revenue bonds payable (Note 9)	2,899,916	671,666
Total current liabilities	14,182,122	11,467,697
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 8)	1,217,670	1,147,348
Right-to-use lease payable (Note 7)	256,512	119,618
Direct finance purchase (Note 9)	1,010,222	1,489,646
Revenue bonds payable, net (Note 9)	96,846,619	77,496,425
Net other post-employment benefits obligation (Note 10)	13,401,368	12,118,384
Net pension liability (Note 11)	15,049,931	15,115,381
Total non-current liabilities	127,782,322	107,486,802
Total liabilities	141,964,444	118,954,499
DEFERRED INFLOWS OF RESOURCES		
Unearned property taxes and assessments	4,800,000	4,300,000
Deferred amounts related to leases (Note 4)	230,288	345,431
Deferred amounts related to net OPEB obligation (Note 10)	4,795,498	5,252,471
Deferred amounts related to net pension liability (Note 11)	273,549	552,482
Total deferred inflows of resources	10,099,335	10,450,384
NET POSITION		
Net investment in capital assets (Note 12)	126,964,416	121,021,039
Restricted – Palmdale Recycled Water Authority (Note 5)	2,255,347	2,234,414
Unrestricted (Deficit) (Note 13)	(9,075,033)	(13,087,747)
Total net position	120,144,730	110,167,706
Total liabilities, deferred inflows of resources and net position	\$ 272,208,509	\$ 239,572,589

PALMDALE WATER DISTRICT*Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2024 and 2023*

	<u>2024</u>	<u>2023</u>
Operating revenues:		Restated
Water sales – commodity charge	\$ 14,619,161	\$ 13,741,868
Water sales – wholesale	273,056	210,495
Monthly meter service charge	20,340,155	18,475,947
Water quality fees	416,112	511,918
Elevation fees	382,474	320,606
Other charges for services	<u>1,250,732</u>	<u>1,312,496</u>
Total operating revenues	<u>37,281,690</u>	<u>34,573,330</u>
Operating expenses:		
Source of supply – water purchases	2,554,457	4,717,720
Operations and production	5,174,695	4,463,854
Facilities	7,732,070	7,875,231
Engineering	2,020,555	2,022,322
Water conservation	364,375	428,286
Administration	8,834,484	8,936,634
Finance and customer care	<u>4,105,095</u>	<u>3,738,637</u>
Total operating expenses	<u>30,785,731</u>	<u>32,182,684</u>
Operating income before overhead absorption	6,495,959	2,390,646
Overhead absorption	<u>1,000,439</u>	<u>202,747</u>
Operating income before depreciation and amortization expense	7,496,398	2,593,393
Depreciation expense (Note 6)	(5,595,267)	(5,594,181)
Right-to-use asset amortization expense (Note 7)	<u>(153,091)</u>	<u>(131,336)</u>
Operating income(loss)	<u>1,748,040</u>	<u>(3,132,124)</u>
Non-operating revenues(expenses):		
Property taxes – ad valorem	3,528,364	2,909,289
Property tax assessment for State Water Project	7,268,052	6,009,593
Successor agency component of property taxes	980,220	998,755
Rental revenue – cellular towers (Note 4)	274,193	185,449
Investment earnings	987,740	573,644
Changes in investment – Palmdale Recycled Water Authority (Note 5)	20,933	27,632
Legal and insurance refunds/settlements	902	48,000
Department of Water Resources – fixed charge recovery	443,653	388,705
Other non-operating revenues	1,222,444	123,035
Cost of debt issuance (Note 9)	(292,810)	(327,759)
State Water Project amortization expense (Note 6)	(4,985,344)	(4,492,670)
Rate assistance program expense	(200,320)	(171,546)
Interest expense – long-term debt	<u>(3,307,446)</u>	<u>(2,733,668)</u>
Total non-operating revenue(expense), net	<u>5,940,581</u>	<u>3,538,459</u>
Net income before capital contributions	<u>7,688,621</u>	<u>406,335</u>
Capital contributions:		
Capital improvement fees	209,462	802,116
Federal and state capital grants	<u>2,078,941</u>	<u>1,296,277</u>
Total capital contributions	<u>2,288,403</u>	<u>2,098,393</u>
Change in net position	9,977,024	2,504,728
Net position:		
Beginning of year, as restated (Note 14)	<u>110,167,706</u>	<u>107,662,978</u>
End of year	<u>\$ 120,144,730</u>	<u>\$ 110,167,706</u>

PALMDALE WATER DISTRICT*Statements of Cash Flows**For the Years Ended December 31, 2024 and 2023*

	2024	2023
Cash flows from operating activities:		Restated
Cash receipts from water sales and services	\$ 37,186,909	\$ 34,567,417
Cash receipts from others	1,427,562	(1,319,803)
Cash paid to employees for salaries and wages	(10,671,464)	(10,366,975)
Cash paid to vendors and suppliers for materials and services	(18,850,191)	(21,836,978)
Net cash provided by operating activities	9,092,816	1,043,661
Cash flows from non-capital financing activities:		
Proceeds from property taxes	3,128,526	4,445,172
Proceeds from property tax assessment for State Water Project	7,268,052	6,009,593
Acquisition of State Water Project participation rights	(7,267,924)	(6,454,858)
Net cash provided by non-capital financing activities	3,128,654	3,999,907
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(17,134,506)	(9,774,018)
Acquisition of right-to-use lease assets	(323,388)	-
Proceeds from capital improvement fees and capital grants	2,288,403	2,098,393
Proceeds from issuance of revenue refunding bonds	22,000,000	21,225,000
Proceeds from issuance of right-to-use asset financing	325,584	-
Cost of debt issuance	(292,810)	(327,759)
Principal paid on right-to-use lease payable	(149,868)	(127,074)
Principal paid on long-term debt	(1,134,740)	(9,340,298)
Interest paid on long-term debt	(3,088,246)	(2,568,074)
Net cash provided by (used in) capital and related financing activities	2,490,429	1,186,170
Cash flows from investing activities:		
Purchase of investments, net	2,893,644	(892,950)
Investment earnings	668,344	219,519
Net cash provided by (used in) investing activities	3,561,988	(673,431)
Net increase (decrease) in cash and cash equivalents	18,273,887	5,556,307
Cash and cash equivalents:		
Beginning of year	16,996,946	11,440,639
End of year	<u>\$ 35,270,833</u>	<u>\$ 16,996,946</u>
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents	\$ 7,607,716	\$ 2,615,777
Restricted assets – cash and cash equivalents	27,663,117	14,381,169
Total cash and cash equivalents	<u>\$ 35,270,833</u>	<u>\$ 16,996,946</u>

PALMDALE WATER DISTRICT*Statements of Cash Flows (continued)**For the Years Ended December 31, 2024 and 2023*

	<u>2024</u>	<u>2023</u>
Reconciliation of operating loss to net cash provided by operating activities:		Restated
Operating gain/(loss)	\$ 1,748,040	\$ (3,132,124)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	5,748,358	5,725,517
Overhead absorption	(1,000,439)	(202,747)
Rental revenue – cellular towers	274,193	185,449
Legal and insurance refunds/settlements	902	48,000
Department of Water Resources – fixed charge recovery	443,653	388,705
Other non-operating revenues	1,222,444	123,035
Change in assets – (increase)decrease:		
Accounts receivable – water sales and services, net	(330,808)	(219,801)
Lease receivable	(266,728)	(380,463)
Accounts receivable – other	(246,902)	(1,684,529)
Materials and supplies inventory	(24,625)	(401,149)
Prepaid expenses	(177,619)	56,301
Change in deferred outflows of resources – (increase)decrease		
Deferred amounts related to net OPEB obligation	(807,501)	409,993
Deferred amounts related to net pension liability	1,515,807	(113,355)
Change in liabilities – increase(decrease):		
Accounts payable and accrued expenses	(47,665)	(1,894,494)
Customer deposits for water service	186,526	178,954
Construction and developer deposits	49,501	34,934
Compensated absences	93,763	816,934
Net other post-employment benefits obligation	1,282,984	(1,157,001)
Net pension liability	(65,450)	1,385,279
Change in deferred inflows of resources – increase(decrease)		
Deferred amounts related to leases	230,288	345,431
Deferred amounts related to net OPEB obligation	(456,973)	749,574
Deferred amounts related to net pension liability	(278,933)	(218,782)
Total adjustments	<u>7,344,776</u>	<u>4,175,785</u>
Net cash provided by operating activities	<u>\$ 9,092,816</u>	<u>\$ 1,043,661</u>
Non-cash investing, capital and financing transactions:	2024	2023
Change in fair-value of investments	\$ 273,356	\$ 306,968
Amortization of deferred amount on debt defeasance	\$ (39,600)	\$ (3,597,018)
Amortization of net premium(discount) on revenue bonds	\$ 80,689	\$ 2,191,774
Changes in investment – Palmdale Recycled Water Authority	\$ 20,933	\$ 27,632

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

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

B. Reporting Entity

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

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

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

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

C. Basis of Presentation, Basis of Accounting

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

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

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

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

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

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

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

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

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

1. Cash and Cash Equivalents

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

2. Investments

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

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

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

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

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

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

2. Investments (continued)

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

3. Allowance for Doubtful Accounts

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

4. Lease Receivable and Deferred Inflows of Resources

The primary objective is to enhance the relevance and consistency of information about the governments' leasing activities. As a lessor, the District is required to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. The District's lease receivable is measured at the present value of the lease payments expected to be received during the lease term. Under the lease agreement, the District may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payment is received. A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is measured at the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relate to future periods. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

5. Prepays

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

6. Materials and Supplies Inventory

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

7. Right-To-Use Lease Asset and Right-To-Use Lease Payable

The primary objective is to enhance the relevance and consistency of information about the governments' leasing activities. The District has established a single model for lease accounting based on the principle that leases are financings of a right-to-use underlying asset. As a lessee, the District is required to recognize a lease liability (payable) and an intangible right-to-use leased asset. At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The leased asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the leased asset is amortized on a straight-line basis over its useful life. The District monitors changes in circumstances that would require remeasurement of its lease and will remeasure the leased asset and lease payable if certain changes occur that are expected to significantly affect the amount of the lease payable.

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

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

8. Capital Assets

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

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

9. State Water Project – Participation Rights

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

10. Customer Deposits for Water Service

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

11. Compensated Absences

The liability for compensated absences reported on the balance sheet consists of unpaid, accumulated annual and vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The cost of vacation is recorded in the period accrued. In accordance with GASB No. 101, Compensated Absences, leave is recognized when it is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Management evaluates sick leave for other District employees to determine the amount that is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This analysis includes assessing relevant factors such as historical information about the use, payment or forfeiture of compensated absences and the District’s portion of Social Security and Medicare taxes.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

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

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

12. Pensions

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

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

CalPERS	June 30, 2024	June 30, 2023
Valuation Date	June 30, 2022	June 30, 2021
Measurement Date	June 30, 2023	June 30, 2022
Measurement Period	July 1, 2022 to June 30, 2023	July 1, 2021 to June 30, 2022

13. Postemployment Benefits Other Than Pensions (OPEB)

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

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

OPEB	December 31, 2024	December 31, 2023
Valuation Date	December 31, 2023	December 31, 2022
Measurement Date	December 31, 2024	December 31, 2023
Measurement Period	Jan. 1, 2024 to Dec. 31, 2024	Jan. 1, 2023 to Dec. 31, 2023

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

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

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

14. Net Position

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

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

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

E. Property Taxes

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

F. Water Sales

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

G. Capital Improvement Fees

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

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

H. Use of Estimates

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

I. New Pronouncements – Governmental Accounting Standards Board (GASB)

During the fiscal year ended December 31, 2024, the District has implemented new GASB pronouncements as follows:

GASB Statement No. 101 – Compensated Absences

This GASB Statement amends the definition of a compensated absence to encompass the various types of benefits offered by governmental employees and established a unified model for accounting and reporting. The statement also revises the related financial statement disclosure requirements, including eliminating certain disclosures previously required that GASB research found did not provide essential information to financial statement users. The GASB statement applies to all units of state and local governments. The District adopted the Statement as of January 1, 2024. See Notes 8 and 14 for the effect of this Statement.

GASB Statement No. 102 – Certain Risk Disclosures

This GASB Statement requires state and local governments to disclose vulnerabilities due to certain concentrations and constraints that could significantly impact their financial health. A concentration refers to a dependency on a specific source—such as a major revenue stream, customer, supplier, or workforce—while a constraint involves legal, regulatory, contractual, or other external limitations that restrict an entity's ability to respond to those risks. If these factors make the government vulnerable to a near-term severe impact, disclosure is required in the notes to the financial statements. The goal of Statement No. 102 is to improve transparency and provide users with better insight into potential risks that could affect a government's financial condition. The District adopted the Statement as of January 1, 2024. See Note 17 for the effect of this Statement.

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023***NOTE 2 – CASH AND INVESTMENTS**

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

Description	Balance, Dec. 31, 2024	Balance, Dec. 31, 2023
Cash and cash equivalents	\$ 7,607,716	\$ 2,615,777
Investments	11,442,432	12,937,858
Restricted – cash and cash equivalents	27,663,117	14,381,169
Total	\$ 46,713,265	\$ 29,934,804

Cash and investments consisted of the following:

Description	Balance, Dec. 31, 2024	Balance, Dec. 31, 2023
Cash on hand	\$ 5,700	\$ 5,700
Demand deposits held with financial institutions	1,983,142	797,666
Local Agency Investment Fund (LAIF)	13,736	13,150
Money-market funds	5,605,139	1,799,261
Money-market funds – restricted	27,663,116	14,381,169
Investments	11,442,432	12,937,858
Total	\$ 46,713,265	\$ 29,934,804

This table identifies the investment types that are authorized by the California Government Code and the District's investment policy. The table also identifies certain provisions of the District's investment policy that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5-years	None	None
District issued bonds	5-years	None	None
Government sponsored agency securities	5-years	None	None
Certificates-of-deposit	5-years	60%	None
Money-market funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2024 and 2023

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments Authorized by Debt Agreements

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

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

Demand Deposits with Financial Institutions

At December 31, 2024 and 2023, the carrying amount of the District’s demand deposits were \$1,983,142 and \$797,666, respectively, and the financial institution’s balance were \$2,871,658 and \$1,049,740, respectively. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution’s balance and the District’s balance for each year.

Custodial Credit Risk – Deposits

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

Money-Market Funds

Money-market funds are an investment whose objective is to earn modest investment earnings while maintaining a net asset value (NAV) of \$1 per share (which is the funds main goal – preservation of principal). A money-market fund’s portfolio is typically comprised of short-term, or less than one year, securities representing high-quality, liquid debt and monetary instruments with minimal credit risk. Money-market funds are Level 1 investments (with quoted prices in active markets for identical assets) that are Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers money-market funds a cash equivalent due to their highly liquid nature and NAV of \$1 per share. As of December 31, 2024, the District held \$5,605,139 in unrestricted money-market funds and \$27,663,116 in restricted money-market funds. As of December 31, 2023, the District held \$1,799,261 in unrestricted money-market funds and \$14,381,169 in restricted money-market funds.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 2 – CASH AND INVESTMENTS (continued)

Local Agency Investment Fund (LAIF)

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

The District is a voluntary participant in LAIF. The fair value of the District's investment in this pool is reported at an amount based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis and it is Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of December 31, 2024, and 2023, the District held \$13,736 and \$13,150 in LAIF, respectively.

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

Investments

Investment maturities and credit ratings as of December 31, 2024, 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	\$ 7,553,088	\$ 7,553,088
Certificates-of-deposit	Level 1	Not Rated	3,889,344	3,889,344
Total investments			<u>\$ 11,442,432</u>	<u>\$ 11,442,432</u>

Investment maturities and credit ratings as of December 31, 2023, 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	\$ 7,322,745	\$ 7,322,745
Certificates-of-deposit	Level 1	Not Rated	5,615,113	5,615,113
Total investments			<u>\$ 12,937,858</u>	<u>\$ 12,937,858</u>

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments (continued)

Investments – Interest Rate Risk

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

Investments – Credit Risk

The District's investment policy limits investment choices to investment securities allowed by the California Government Code. At December 31, 2024 and 2023, all investments represented investment securities which were issued, registered and held by the District's agent in the District's name.

Investments – Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At December 31, 2024 and 2023, the District had the following investments that represented more than five percent of the Authority's net investment balance.

Investments greater than 5% for the year ended December 31, 2024, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Investments
U.S. Treasury Note - March 15, 2025	\$ 1,989,920	17.39%
U.S. Treasury Note - August 31, 2025	643,624	5.62%
U.S. Treasury Note - August 31, 2025	604,016	5.28%
U.S. Treasury Note - September 15, 2025	3,470,439	30.33%
Total	\$ 6,707,999	58.62%

Investments greater than 5% for the year ended December 31, 2023, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Investments
U.S. Treasury note - March 15, 2024	\$ 1,806,823	13.97%
U.S. Treasury bill - March 21, 2024	766,173	5.92%
U.S. Treasury note - April 30, 2024	742,500	5.74%
U.S. Treasury note - May 15, 2024	713,936	5.52%
U.S. Treasury note - September 15, 2024	1,452,660	11.23%
Total	\$ 5,482,092	42.37%

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023*

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

The balances consisted of the following;

Description	Balance, Dec. 31, 2024	Balance, Dec. 31, 2023
Accounts receivable – water sales and services	\$ 3,027,590	\$ 2,679,072
Allowance for doubtful accounts	(22,856)	(5,146)
Accounts receivable – water sales and services, net	\$ 3,004,734	\$ 2,673,926

NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES

Changes in the District’s lease receivable for the year ended December 31, 2024 was as follows:

Description	Balance, Jan. 1, 2024	Additions	Deletions	Balance, Dec. 31, 2024
Cellular antenna site rental No. 1	\$ 189,495	\$ -	\$ (53,069)	\$ 136,426
Cellular antenna site rental No. 2	129,904	-	(40,717)	89,187
Cellular antenna site rental No. 3	61,064	-	(19,949)	41,115
	<u>\$ 380,463</u>	<u>\$ -</u>	<u>\$ (113,735)</u>	<u>\$ 266,728</u>

Changes in the District’s lease receivable for the year ended December 31, 2023 was as follows:

Description	Balance, Jan. 1, 2023	Additions	Deletions	Balance, Dec. 31, 2023
Cellular antenna site rental No. 1	\$ 234,240	\$ -	\$ (44,745)	\$ 189,495
Cellular antenna site rental No. 2	168,191	-	(38,287)	129,904
Cellular antenna site rental No. 3	80,618	-	(19,554)	61,064
	<u>\$ 483,049</u>	<u>\$ -</u>	<u>\$ (102,586)</u>	<u>\$ 380,463</u>

The District is reporting a total lease receivable of \$266,728 and \$380,463 a total related deferred inflows of resources of \$230,288 and \$345,431 for the year ending June 30, 2024 and 2023, respectively. Also, the District is reporting total lease revenue of \$115,143 and \$115,144 and interest revenue of \$6,589 and \$8,740 related to payments received from the above three leases for the year ending June 30, 2024, and 2023, respectively.

The leases held by the District do not have an implicit rate of return, therefore the District used their incremental borrowing rate of 2.00% to discount the lease revenue to the net present value. In some cases, leases contain termination clauses. In these cases, the clause requires the lessee or lessor to show cause to terminate the lease. Also, certain leasing-types are considered “volatile leases.” Those volatile leases were not extended past their initial lease period for financial statement recognition due to their volatility.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)

Cellular Antenna Site Rental No. 1

The District, on January 1, 2022, renewed a continuous lease with Sprint/AT&T for 60 months as lessor for the use of a cellular antenna site rental. An initial lease receivable was recorded in the amount of \$271,774. As of December 31, 2024, the value of the lease receivable was \$136,426. The lease is required to make monthly fixed payments of \$3,194 for the first 3-month period, then increase 15.0% on April 1st of each year. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was \$108,710 as of December 31, 2024. The District recognized lease revenue of \$54,355 and interest revenue of \$3,319 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period. Since this is considered a volatile lease only this lease period has been recognized.

Cellular Antenna Site Rental No. 2

The District, on January 1, 2022, renewed a continuous lease with T-Mobile for 60 months as lessor for the use of a cellular antenna site rental. An initial lease receivable was recorded in the amount of \$204,159. As of December 31, 2024, the value of the lease receivable was \$89,187. The lease is required to make monthly fixed payments of \$3,257 for the first 7-month period, then increase 4.0% on August 1st of each year. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was \$81,663 as of December 31, 2024. The District recognized lease revenue of \$40,832 and interest revenue of \$2,230 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period. Since this is considered a volatile lease only this lease period has been recognized.

Cellular Antenna Site Rental No. 3

The District, on January 1, 2022, renewed a continuous lease with Crown Castle USA, Inc., for 60 months as lessor for the use of a cellular antenna site rental. An initial lease receivable was recorded in the amount of \$99,785. As of December 31, 2024, the value of the lease receivable was \$41,115. The lease is required to make monthly fixed payments of \$1,749 for the first 12-month period, then will be evaluated annually for increases. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was \$39,915 as of December 31, 2024. The District recognized lease revenue of \$19,957 and interest revenue of \$1,039 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period. Since this is considered a volatile lease only this lease period has been recognized.

Minimum future lease receipts for the next four fiscal years are as follows:

Year	Principal	Interest	Total
2025	\$ 126,287	\$ 4,202	\$ 130,489
2026	140,441	1,549	141,990
Total	266,728	\$ 5,751	\$ 272,479
Less: current	(126,287)		
Total non-current	\$ 140,441		

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023***NOTE 4 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)**

Changes in the District's deferred inflows of resources related to leases for December 31, 2024 are as follows:

Description	Balance, Jan. 1, 2024	Additions	Deletions	Balance, Dec. 31, 2024
Cellular antenna site rental No. 1	\$ 163,065	\$ -	\$ (54,355)	\$ 108,710
Cellular antenna site rental No. 2	122,495	-	(40,832)	81,663
Cellular antenna site rental No. 3	59,871	-	(19,956)	39,915
	<u>\$ 345,431</u>	<u>\$ -</u>	<u>\$ (115,143)</u>	<u>\$ 230,288</u>

Changes in the District's deferred inflows of resources related to leases for December 31, 2023 are as follows:

Description	Balance, Jan. 1, 2023	Additions	Deletions	Balance, Dec. 31, 2023
Cellular antenna site rental No. 1	\$ 217,420	\$ -	\$ (54,355)	\$ 163,065
Cellular antenna site rental No. 2	163,327	-	(40,832)	122,495
Cellular antenna site rental No. 3	79,828	-	(19,957)	59,871
	<u>\$ 460,575</u>	<u>\$ -</u>	<u>\$ (115,144)</u>	<u>\$ 345,431</u>

The amounts reported as deferred inflows of resources related to leases for the year ended December 31, 2024, will be amortized in future periods as follows:

Amortization Period Fiscal Year Ended Dec. 31, 2023	Deferred Inflows of Resources
2025	\$ 115,144
2026	<u>115,144</u>
Total	<u>\$ 230,288</u>

Fin Feather Club Lease

The District has a lease agreement with the Fin Feather Club for use of District owned land and lake by the club's members, for activities including hunting, fishing, archery practice, as well as other recreational activities. The lease originated in 2006 and runs for five-year terms, with the club having the right to unilaterally terminate the lease with a six-month written notice to the District. The terms of the lease call for annual rent payments to the District of \$3,000 or five percent of gross, non-retail-based receipts of the Club as per the Club's annual audit for the previous calendar year. Due to the uncertain nature of the annual rent received by the District, this lease agreement was not included in the GASB 87 calculations. The District recognized \$51,803 in lease revenue during the fiscal year.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 5 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY

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

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

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

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

For 2024, the District reports its equity interest as of the date of the last audited financial statements of the Authority as of December 31, 2024, which was audited by our firm, whose report dated June 15, 2025, expressed an unmodified opinion on those financial statements.

For 2023, the District reports its equity interest as of the date of the last audited financial statements of the Authority as of December 31, 2023, which was audited by our firm, whose report dated June 15, 2024, expressed an unmodified opinion on those financial statements.

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2024 and 2023

NOTE 5 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY (continued)

The following is the condensed financial statement of the Authority for the year ended December 31, 2024:

Condensed Balance Sheet
December 31, 2024

	Audited Total	City of Palmdale 50% Share	District 50% Share
Assets:			
Total assets	\$ 4,542,738	\$ 2,271,369	\$ 2,271,369
Liabilities:			
Total liabilities	32,044	16,022	16,022
Net position:			
Total net position	4,510,694	2,255,347	2,255,347
Total liabilities and net position	\$ 4,542,738	\$ 2,271,369	\$ 2,271,369

Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2024

	Audited Total	City of Palmdale 50% Share	District 50% Share
Operating revenues:			
Total operating revenues	\$ 45,684	\$ 22,842	\$ 22,842
Operating expenses:			
Total operating expenses	119,861	59,931	59,931
Operating income	(74,177)	(37,089)	(37,089)
Non-operating revenues:			
Total non-operating revenue	116,043	58,022	58,022
Change in net position	41,866	20,933	20,933
Net position:			
Beginning of year	4,468,828	2,234,414	2,234,414
End of year	\$ 4,510,694	\$ 2,255,347	\$ 2,255,347

Condensed Statement of Cash Flows
For the Year Ended December 31, 2024

	Audited Total	City of Palmdale 50% Share	District 50% Share
Cash flows from operating activities:			
Net cash provided by operating activities	\$ (25,728)	\$ (12,864)	\$ (12,864)
Cash flows from investing activities:			
Net cash used in investing activities	528,616	264,308	264,308
Net increase in cash and cash equivalents	502,888	251,444	251,444
Cash and cash equivalents:			
Beginning of year	607,506	303,753	303,753
End of year	\$ 1,110,394	\$ 555,197	\$ 555,197
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ (74,177)	\$ (37,089)	\$ (37,089)
Depreciation	53,407	26,704	26,704
Change in assets	1,036	518	518
Change in liabilities	(5,994)	(2,997)	(2,997)
Net cash provided by operating activities	\$ (25,728)	\$ (12,864)	\$ (12,864)

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 5 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY (continued)

The following is the condensed financial statement of the Authority for the year ended December 31, 2023:

Condensed Balance Sheet December 31, 2023

	Audited Total	City of Palmdale 50% Share	District 50% Share
Assets:			
Total assets	\$ 4,506,866	\$ 2,253,433	\$ 2,253,433
Liabilities:			
Total liabilities	38,038	19,019	19,019
Net position:			
Total net position	4,468,828	2,234,414	2,234,414
Total liabilities and net position	\$ 4,506,866	\$ 2,253,433	\$ 2,253,433

Condensed Statement of Revenues, Expenses and Changes in Net Position For the Year Ended December 31, 2023

	Audited Total	City of Palmdale 50% Share	District 50% Share
Operating revenues:			
Total operating revenues	\$ 60,899	\$ 30,450	\$ 30,450
Operating expenses:			
Total operating expenses	112,096	56,048	56,048
Operating income	(51,197)	(25,599)	(25,599)
Non-operating revenues:			
Total non-operating revenue	106,460	53,230	53,230
Change in net position	55,263	27,632	27,632
Net position:			
Beginning of year	4,413,565	2,206,783	2,206,783
End of year	\$ 4,468,828	\$ 2,234,414	\$ 2,234,414

Condensed Statement of Cash Flows For the Year Ended December 31, 2023

	Audited Total	City of Palmdale 50% Share	District 50% Share
Cash flows from operating activities:			
Net cash provided by operating activities	\$ (14,287)	\$ (7,144)	\$ (7,144)
Cash flows from investing activities:			
Net cash used in investing activities	(7,061)	(3,531)	(3,531)
Net increase in cash and cash equivalents	(21,348)	(10,674)	(10,674)
Cash and cash equivalents:			
Beginning of year	628,854	314,427	314,427
End of year	\$ 607,506	\$ 303,753	\$ 303,753
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ (51,197)	\$ (25,599)	\$ (25,599)
Depreciation	53,407	26,704	26,704
Change in assets	1,664	832	832
Change in liabilities	(18,161)	(9,081)	(9,081)
Net cash provided by operating activities	\$ (14,287)	\$ (7,144)	\$ (7,144)

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2024 and 2023

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended December 31, 2024, was as follows:

Description	Balance, Jan. 1, 2024	Additions	Deletions/ Transfers	Balance, Dec. 31, 2024
Non-depreciable assets:				
Land and land rights	\$ 2,499,489	\$ 478,772	\$ -	\$ 2,978,261
Water rights – Armagosa Creek	2,127,355	-	-	2,127,355
Construction-in-process	17,727,777	12,387,394	(360,050)	29,755,121
Total non-depreciable assets	22,354,621	12,866,166	(360,050)	34,860,737
Depreciable assets:				
Buildings, wells and distribution system	250,938,916	4,381,868	(128,901)	255,191,883
SWP – participation rights	108,556,173	7,267,924	-	115,824,097
Machinery and equipment	12,388,311	246,522	(760,169)	11,874,664
Total depreciable assets	371,883,400	11,896,314	(889,070)	382,890,644
Accumulated depreciation:				
Buildings, wells and distribution system	(147,540,010)	(5,291,594)	128,901	(152,702,703)
SWP – participation rights	(50,197,174)	(4,985,344)	-	(55,182,518)
Machinery and equipment	(10,925,022)	(303,673)	760,169	(10,468,526)
Total accumulated depreciation	(208,662,206)	(10,580,611)	889,070	(218,353,747)
Total depreciable assets, net	163,221,194	1,315,703	-	164,536,897
Right-to-use leased asset:				
Vehicle fleet	553,215	323,388	-	876,603
Accumulated amortization:				
Vehicle fleet	(317,811)	(153,091)	-	(470,902)
Total right-to-use leased asset, net	235,404	170,297	-	405,701
Total capital assets, net	\$ 185,811,219	\$ 14,352,166	\$ (360,050)	\$ 199,803,335

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2024 and 2023

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION (continued)

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

Description	Balance, Jan. 1, 2023	Additions	Deletions/ Transfers	Balance, Dec. 31, 2023
Non-depreciable assets:				
Land and land rights	\$ 1,809,677	\$ 689,812	\$ -	\$ 2,499,489
Water rights – Armagosa Creek	2,127,355	-	-	2,127,355
Construction-in-process	17,379,306	8,987,262	(8,638,791)	17,727,777
Total non-depreciable assets	21,316,338	9,677,074	(8,638,791)	22,354,621
Depreciable assets:				
Buildings, wells and distribution system	243,266,450	7,672,466	-	250,938,916
SWP – participation rights	102,101,315	6,454,858	-	108,556,173
Machinery and equipment	12,058,307	1,063,269	(733,265)	12,388,311
Total depreciable assets	357,426,072	15,190,593	(733,265)	371,883,400
Accumulated depreciation:				
Buildings, wells and distribution system	(142,172,767)	(5,367,243)	-	(147,540,010)
SWP – participation rights	(45,704,504)	(4,492,670)	-	(50,197,174)
Machinery and equipment	(11,431,349)	(226,938)	733,265	(10,925,022)
Total accumulated depreciation	(199,308,620)	(10,086,851)	733,265	(208,662,206)
Total depreciable assets, net	158,117,452	5,103,742	-	163,221,194
Right-to-use leased asset:				
Vehicle fleet	699,304	-	(146,089)	553,215
Accumulated amortization:				
Vehicle fleet	(332,564)	(131,336)	146,089	(317,811)
Total right-to-use leased asset, net	366,740	(131,336)	-	235,404
Total capital assets, net	\$ 179,800,530	\$ 14,649,480	\$ (8,638,791)	\$ 185,811,219

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023***NOTE 6 – CAPITAL ASSETS AND DEPRECIATION (continued)****Construction-In-Process**

The balance consists of the following projects:

Project Description	Balance Dec. 31, 2022	Balance Dec. 31, 2023	Balance Dec. 31, 2024
Palmdale Regional Groundwater Recharge Project	\$ 4,209,279	\$ 4,209,279	\$ 4,209,279
2020 Meter Exchange Project	907,390	-	-
2950 Zone Booster @3M Clearwell	223,981	595,224	3,451,123
45th St Tank Site - Altitude Valve Replacement	492,768	100,598	100,598
Well 36 - Construction	2,182,284	2,998,268	4,381,544
Well 14 - Rehabilitation	157,578	-	-
2022 Large Meter/Vault Replacement Program	188,202	190,023	-
Sierra Hwy Tie-in @ Harold St	811,764	-	-
Spec 1206 - ML Replacement Division/Q	2,562,044	-	-
Pure Water AV - Design (Demonstration)	1,085,726	2,271,581	3,325,206
Spec 1901 - ML Replace Avenue P	582,608	-	-
Pure Water AV - Planning	576,562	787,009	1,077,556
Water Main Replacement 5th St & Q1 thru Q5	355,257	-	-
John Deere 30 SL Backhoe (2)	257,468	-	-
Well 8 Rehabilitation	367,764	-	-
Main Office- Stucco Repair	222,183	-	-
Well 32 Rehabilitation	196,615	-	-
Water Main Replacement E Ave Q10 & 12th St	174,356	-	-
Well 26 Submersible Pump	143,899	-	-
NaOCL Replacement System - WTP	137,491	1,289,064	-
2015 Kenworth T370 Crane	133,419	133,419	133,419
Ditch Conversion	-	601,106	3,423,563
Design & Construction Recycling Water Pipline	-	121,131	1,270,806
Well 15 - Discharge Basin	-	236,186	-
50-PPD Sodium Hypo Units	-	137,620	137,620
Well 15 - Rehabilitation	-	595,671	-
2022 Large Meter/Vault Replacement Program	-	190,023	-
8" WM Camares Dr	-	1,237,200	-
2023 Furniture Upgrade	-	102,510	-
600ft Steel PVC 42nd Street	-	212,141	212,718
Funding App - Pure Water AV	-	387,095	732,546
AMI Meter System	-	15,000	143,300
Water Conservation Garden	-	43,850	281,499
Design & Construction Water Main at 10th street	-	31,152	182,464
Boardroom Audio Visual Upgrade	-	76,735	143,963
Public Outreach - Pure Water AV	-	94,069	194,789
Design & Construction Rehab Clearwell 6m	-	83,540	201,951
2024 AMR System Upgrade	-	23,773	215,281
Well 11 Engine Overhall	-	-	125,592
2024 Meter Exchange Program	-	-	1,163,684
2024 Large Mtr/Vault Replacement Program	-	-	238,491
Pure Water AV - Design (Full Scale)	-	-	123,190
Construction - Facility Department	-	-	2,587,290
Various other minor projects <\$100,000	1,410,668	964,510	1,697,649
Total construction-in-process	\$ 17,379,306	\$ 17,727,777	\$ 29,755,121

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION (continued)

State Water Project – Participation Rights

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

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

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

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

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

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

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

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023***NOTE 7 – RIGHT-TO-USE LEASED ASSET AND RIGHT-TO-USE LEASE PAYABLE**

Changes in right-to-use leased payable for fiscal year ending December 31, 2024 was as follows:

<u>Balance, Jan. 1, 2024</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, Dec. 31, 2024</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 228,640	\$ 325,584	\$ (149,868)	\$ 404,356	\$ 147,844	\$ 256,512

Changes in right-to-use leased payable for fiscal year ending December 31, 2023 was as follows:

<u>Balance, Jan. 1, 2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, Dec. 31, 2023</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 355,714	\$ -	\$ (127,074)	\$ 228,640	\$ 109,022	\$ 119,618

Annual debt service requirements for the right-to-use lease payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 147,844	\$ 6,592	\$ 154,436
2026	93,494	4,210	97,704
2027	67,691	2,601	70,292
2028	57,835	1,378	59,213
2029	37,492	295	37,787
Total	404,356	\$ 15,076	\$ 419,432
Less: current	(147,844)		
Total non-current	\$ 256,512		

The District is reporting a total right-to-use leased asset, net of \$405,701 and a right-to-use lease payable of \$256,512 for the year ending December 31, 2024. Also, the District is reporting total amortization expense of \$153,091, principal payments of \$149,868 and interest expense of \$6,224 related to the above noted leases.

The lease held by the District does not have an implicit rate of return, therefore the District used their incremental borrowing rate of 2.00% to discount the lease payments to the net present value. In some cases, leases contain termination clauses. In these cases, the clause requires the lessee or lessor to show cause to terminate the lease.

The District's lease is summarized as follows:

Vehicle Fleet

The District leases its fleet of vehicles from Enterprise FM Trust with terms for individual vehicles ranging from 48 to 60 months. An initial right-to-use liability was recorded on January 1st, 2022, in the amount of \$396,586. The District's monthly payments vary based on invoiced amounts determined by the number of vehicles leased, as well as any costs associated with initiating or concluding a lease for an individual vehicle. The leases have an implied interest rate of 2%. The District is amortizing the right-to-use asset of \$876,603 at \$15,752 per month. As of December 31, 2024, the District had 31 leased fleet vehicles.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 8 – COMPENSATED ABSENCES

As of December 31, 2024, the total liability for compensated absences was \$1,623,560, of which \$405,890 is expected to be paid within one year and is reported as a current liability. The beginning balance of compensated absences as of January 1, 2024, reflected a material difference upon implementation of GASB Statement No. 101; therefore, restatement was required.

Summary changes to compensated absences balances for the year ended December 31, 2024, were as follows:

Balance, Jan. 1, 2024	Additions	Deletions	Balance, Dec. 31, 2024	Due Within One Year	Due in More Than One Year
\$ 1,529,797	\$ 867,555	\$ (773,792)	\$ 1,623,560	\$ 405,890	\$ 1,217,670

Summary changes to compensated absences balances for the year ended December 31, 2023, were as follows:

Balance, Jan. 1, 2023	Additions	Deletions	Balance, Dec. 31, 2023	Due Within One Year	Due in More Than One Year
\$ 712,863	\$ 1,407,357	\$ (590,423)	\$ 1,529,797	\$ 382,449	\$ 1,147,348

NOTE 9 – LONG-TERM DEBT

Changes in long-term debt for the year ended December 31, 2024, were as follows:

Long-Term Debt	Balance, Jan. 1, 2024	Additions/ Adjustments	Payments/ Amortization	Balance, Dec. 31, 2024	Current Portion	Non-Current Portion
Direct finance purchase - 2022	1,952,719	-	(463,074)	1,489,645	479,423	1,010,222
Revenue bonds payable - 2018	12,290,000	-	(275,000)	12,015,000	290,000	11,725,000
Revenue bonds payable - premium	916,881	-	(37,046)	879,835	-	879,835
Revenue bonds payable, net - 2018	13,206,881	-	(312,046)	12,894,835	290,000	12,604,835
Revenue refunding bonds - non-taxable - 2020	8,939,354	-	(13,776)	8,925,578	13,776	8,911,802
Revenue refunding bonds - taxable - 2020	14,025,000	-	(170,000)	13,855,000	170,000	13,685,000
Revenue refunding bonds - 2020	22,964,354	-	(183,776)	22,780,578	183,776	22,596,802
Revenue bonds - 2021A	9,390,000	-	-	9,390,000	-	9,390,000
Revenue refunding bonds - 2021	10,146,820	-	(212,890)	9,933,930	2,426,140	7,507,790
Revenue bonds payable - premium	806,636	-	(29,244)	777,392	-	777,392
Revenue bonds payable, net - 2021	20,343,456	-	(242,134)	20,101,322	2,426,140	17,675,182
Revenue bonds - 2023A	21,225,000	-	-	21,225,000	-	21,225,000
Revenue bonds payable - premium	428,400	-	(14,400)	414,000	-	414,000
Revenue bonds payable, net - 2023	21,653,400	-	(14,400)	21,639,000	-	21,639,000
Revenue bonds - 2024	-	21,700,000	-	21,700,000	-	21,700,000
Revenue bonds payable - premium	-	646,974	(16,174)	630,800	-	630,800
Revenue bonds payable, net - 2024	-	22,346,974	(16,174)	22,330,800	-	22,330,800
Total long-term debt	\$ 80,120,810	\$ 22,346,974	\$ (1,231,604)	\$ 101,236,180	\$ 3,379,339	\$ 97,856,841

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2024 and 2023

NOTE 9 – LONG-TERM DEBT (continued)

Changes in long-term debt for the year ended December 31, 2023, were as follows:

Long-Term Debt	Balance, Jan. 1, 2023	Additions/ Adjustments	Payments/ Amortization	Balance, Dec. 31, 2023	Current Portion	Non-Current Portion
Direct finance purchase – 2022	2,400,000	-	(447,281)	1,952,719	463,073	1,489,646
Loan payable – 2012	1,342,628	-	(1,342,628)	-	-	-
Revenue bonds payable – 2013	8,240,000	-	(8,240,000)	-	-	-
Revenue bonds payable – discount	(89,240)	-	89,240	-	-	-
Revenue bonds payable – premium	2,208,407	-	(2,208,407)	-	-	-
Revenue bonds payable, net – 2013	10,359,167	-	(10,359,167)	-	-	-
Revenue bonds payable – 2018	12,555,000	-	(265,000)	12,290,000	275,000	12,015,000
Revenue bonds payable – premium	953,927	-	(37,046)	916,881	-	916,881
Revenue bonds payable, net – 2018	13,508,927	-	(302,046)	13,206,881	275,000	12,931,881
Revenue refunding bonds – non-taxable – 2020	8,952,691	-	(13,337)	8,939,354	13,776	8,925,578
Revenue refunding bonds – taxable – 2020	14,190,000	-	(165,000)	14,025,000	170,000	13,855,000
Revenue refunding bonds – 2020	23,142,691	-	(178,337)	22,964,354	183,776	22,780,578
Revenue bonds – 2021A	9,390,000	-	-	9,390,000	-	9,390,000
Revenue refunding bonds – 2021	10,356,500	-	(209,680)	10,146,820	212,890	9,933,930
Revenue bonds payable – premium	835,880	-	(29,244)	806,636	-	806,636
Revenue bonds payable, net – 2021	20,582,380	-	(238,924)	20,343,456	212,890	20,130,566
Revenue bonds – 2023A	-	21,225,000	-	21,225,000	-	21,225,000
Revenue bonds payable – premium	-	434,717	(6,317)	428,400	-	428,400
Revenue bonds payable, net – 2023	-	21,659,717	(6,317)	21,653,400	-	21,653,400
Total long-term debt	\$ 71,335,793	\$ 21,659,717	\$ (12,874,700)	\$ 80,120,810	\$ 1,134,739	\$ 78,986,071

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 9 – LONG-TERM DEBT (continued)

A. Direct Finance Purchase – 2022

On October 10, 2022, the District entered into a \$2,400,000 installment purchase agreement in order to acquire, construct, equip, and furnish certain improvements to its facilities. The agreement contains a buyout provision that can be exercised beginning in year three of the agreement. Right-to-use lease financing payments consisting of principal and interest in the amount of \$263,701 are due every six months beginning in April 2023 until October 2027 at an annual interest rate of 3.50%. The balance of the direct finance purchase was \$1,489,646 as of December 31, 2024.

Annual debt service requirements for the direct finance purchase are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 479,423	\$ 47,979	\$ 527,402
2026	496,349	31,053	527,402
2027	<u>513,874</u>	<u>13,528</u>	<u>527,402</u>
Total	1,489,646	<u>\$ 92,560</u>	<u>\$ 1,582,206</u>
Less: current	<u>(479,423)</u>		
Total non-current	<u>\$ 1,010,223</u>		

B. Loan Payable – 2012

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

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

The advance refunding resulted in a difference between the reacquisition price and the net carrying value amount of the old debt of \$846,845. This difference is being amortized through 2024 (the life of the debt) using the straight-line method as a deferred loss on debt defeasance. The District completed the advance refunding to reduce its total debt service payments over the next 11 years by approximately \$1.293 million and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$1.154 million. The balance of the loan payable was paid in full as of December 31, 2023.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 9 – LONG-TERM DEBT (continued)

C. Revenue Bonds Payable

Revenue Bonds Payable – 2013

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

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

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

In 2021, the District advanced refunded \$21,220,000 of debt service payments from 2031 to 2043 by issuing a non-taxable and a taxable issue.

In 2022, the District advanced refunded \$9,530,000 of debt service payments from 2025 to 2028 by issuing a bond.

In 2023, the District advance refunded the remaining \$8,240,000 of the Revenue Bonds – 2013 into a 2023 revenue bonds payable issuance.

Deferred Amount on Debt Defeasance, Net

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2023, was as follows:

Description	Balance, Jan. 1, 2023	Additions	Amortization	Balance, Dec. 31, 2023
Deferred amount on debt defeasance, net	\$ 1,452,336	\$ -	\$ (1,452,336)	\$ -

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023*

NOTE 9 – LONG-TERM DEBT (continued)**C. Revenue Bonds Payable (continued)****Revenue Bonds Payable – 2018**

The Palmdale Water District Public Financing Authority (Authority) issued \$12,805,000 in Water Revenue Bonds, Series 2018A (2018A Bonds) with maturities from 2022 through 2048 with an interest rate range between 3.125% and 5.00% pursuant to an Indenture of Trust, dated as of June 1, 2018, by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The 2018A Bonds are being issued: (i) to finance certain improvements to the District's water system, including Littlerock Dam; (ii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the 2018A Bonds; (iii) to purchase a municipal bond debt service reserve insurance policy in case of default; and (iv) to pay the costs of issuing the 2018A Bonds. The District has pledged 100% of its water revenues to collateralize the debt. Interest due on the 2018A Bonds is payable semiannually on April 1 and October 1 of each year, commencing October 1, 2018, while principal payments are payable on October 1 of each year, commencing October 1, 2022. The 2018A Bond issuance resulted in a \$1,120,632 premium which is being amortized over the remaining debt service years. Cost of the debt issuance was \$308,867 which was expensed in the year of issuance. Annual debt service requirements for the revenue bonds payable are as follows:

Year	Principal	Interest	Total
2025	\$ 290,000	\$ 532,044	\$ 822,044
2026	305,000	517,544	822,544
2027	320,000	502,294	822,294
2028	335,000	486,294	821,294
2029	350,000	469,544	819,544
2030-2034	2,030,000	2,073,937	4,103,937
2035-2039	2,430,000	1,672,438	4,102,438
2040-2044	3,005,000	1,092,750	4,097,750
2045-2048	2,950,000	331,375	3,281,375
Total	12,015,000	<u>\$ 7,678,220</u>	<u>\$ 19,693,220</u>
Less: current	<u>(290,000)</u>		
Total non-current	<u>\$ 11,725,000</u>		

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023*

NOTE 9 – LONG-TERM DEBT (continued)**C. Revenue Bonds Payable (continued)****Revenue Refunding Bonds – Non-Taxable – 2020**

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

The advance refunding resulted in a net present value benefit to the District of \$751,628 in interest savings from the refunding. Annual debt service requirements for the revenue refunding bonds payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 14,229	\$ 293,652	\$ 307,881
2026	14,698	293,183	307,881
2027	15,181	292,700	307,881
2028	15,681	292,200	307,881
2029	16,196	291,685	307,881
2030-2034	89,334	1,450,071	1,539,405
2035-2039	4,546,602	1,151,802	5,698,404
2040-2043	4,213,657	352,066	4,565,723
Total	8,925,578	<u>\$ 4,417,359</u>	<u>\$ 13,342,937</u>
Less: current	<u>(14,229)</u>		
Total non-current	<u>\$ 8,911,349</u>		

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023***NOTE 9 – LONG-TERM DEBT (continued)****C. Revenue Bonds Payable (continued)****Revenue Refunding Bonds – Taxable – 2020**

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

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 170,000	\$ 384,305	\$ 554,305
2026	170,000	381,894	551,894
2027	175,000	378,870	553,870
2028	180,000	375,476	555,476
2029	180,000	371,299	551,299
2030-2034	12,980,000	1,299,390	14,279,390
Total	13,855,000	\$ 3,191,234	\$ 17,046,234
Less: current	(170,000)		
Total non-current	\$ 13,685,000		

Deferred Amount on Debt Defeasance, Net

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2023, are as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2023</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2023</u>
Deferred amount on debt defeasance, net	\$ 1,591,488	\$ -	\$ (1,591,488)	\$ -

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 9 – LONG-TERM DEBT (continued)

C. Revenue Bonds Payable (continued)

Water Revenue Bonds – Non-Taxable – 2021A

In July 2021, the Palmdale Water District Public Financing Authority (Authority) issued \$9,390,000 in Water Revenue Bonds – Series 2021A (Bonds-2021A) with maturities from 2021 through 2051 with an interest rate range coupon of 4.00% by and between the Authority and the Bank of New York Mellon Trust Company. The Bonds-2021A were issued: (i) to finance certain improvements to the District's Water system; and (ii) to pay the costs of issuing the Bonds-2021A of \$267,309. The District has pledged 100% of its water revenues to collateralize the debt. The issuance resulted in a premium on the issuance of \$877,309 which is being amortized over the remaining debt service years. Principal and interest payments are due in April and October of each year as noted.

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

Year	Principal	Interest	Total
2025	\$ -	\$ 299,725	\$ 299,725
2026	-	299,725	299,725
2027	-	299,725	299,725
2028	-	299,725	299,725
2029	-	299,725	299,725
2030-2034	-	1,498,625	1,498,625
2035-2039	2,250,000	1,325,825	3,575,825
2040-2044	2,625,000	948,888	3,573,888
2045-2049	3,140,000	439,450	3,579,450
2050-2051	1,375,000	51,750	1,426,750
Total	9,390,000	<u>\$ 5,763,163</u>	<u>\$ 15,153,163</u>
Less: current	-		
Total non-current	<u>\$ 9,390,000</u>		

Revenue Refunding Bonds – 2021

In August 2021, the Palmdale Water District Public Financing Authority (Authority) issued \$10,549,330 in Revenue Refunding Bonds – 2021 (Bonds-2021) with maturities from 2021 through 2028 with an interest rate coupon of 1.53% pursuant to an Installment Purchase Agreement dated August 31, 2021. The Bonds-2021 were issued: (i) to prepay the \$9,530,000 of District's outstanding Bonds-2013 principal from 2025 to 2028; (ii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the Bonds-2021 in case of default; and (iii) to pay the costs of issuing the Bonds-2021 \$115,000. The District has pledged 100% of its water revenues to collateralize the debt. Principal and interest payments are due in October of each year.

The advance refunding resulted in a difference between the reacquisition price and the net carrying value amount of the old debt of \$734,960. This difference is being amortized through 2028 (the life of the debt) using the straight-line method as a deferred amount on debt defeasance.

The advance refunding resulted in a net present value benefit to the District of \$719,502 in interest savings from the refunding.

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023***NOTE 9 – LONG-TERM DEBT (continued)****C. Revenue Bonds Payable (continued)****Revenue Refunding Bonds – Series 2021 (continued)**

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 2,426,140	\$ 142,709	2,568,849
2026	2,467,760	105,430	2,573,190
2027	2,499,270	67,553	2,566,823
2028	2,540,760	29,155	2,569,915
Total	9,933,930	\$ 344,847	\$ 10,278,777
Less: current	(2,426,140)		
Total non-current	\$ 7,507,790		

Deferred Amount on Debt Defeasance, Net

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2023, are as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2023</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2023</u>
Deferred amount on debt defeasance, net	\$ 1,591,488	\$ -	\$ (1,591,488)	\$ -

Revenue Refunding Bonds – 2023

In September 2023, the Palmdale Water District Public Financing Authority (Authority) issued \$21,225,000 in Revenue Refunding Bonds – 2023 (Bonds-2023) with maturities from 2050 through 2053 with an interest rate coupon of 4.125% to 5.000% pursuant to an Installment Purchase Agreement dated September 26, 2023. The Bonds-2023 were issued: (i) to prepay the \$7,655,000 of District's outstanding Bonds-2013 principal from 2025 to 2028; (ii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the Bonds-2023 in case of default; and (iii) to pay the costs of issuing the Bonds-2023 \$327,759; and (iv) to provide \$13,570,000 in new money to fund various capital projects at the District. The District has pledged 100% of its water revenues to collateralize the debt. Principal and interest payments are due in October of each year.

The advance refunding resulted in a difference between the reacquisition price and the net carrying value amount of the old debt of \$1,191,324. This difference is being amortized through 2053 (the life of the debt) using the straight-line method as a deferred amount on debt defeasance.

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2024 and 2023

NOTE 9 – LONG-TERM DEBT (continued)

C. Revenue Bonds Payable (continued)

Revenue Refunding Bonds – 2023 (continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ -	\$ 984,075	\$ 984,075
2026	-	984,075	984,075
2027	-	984,075	984,075
2028	-	984,075	984,075
2029	-	984,075	984,075
2030-2034	-	4,920,375	4,920,375
2035-2039	-	4,920,375	4,920,375
2040-2044	-	4,920,375	4,920,375
2045-2049	5,485,000	4,826,119	10,311,119
2050-2053	15,740,000	2,053,569	17,793,569
Total	21,225,000	<u>\$ 26,561,188</u>	<u>\$ 47,786,188</u>
Less: current	-		
Total non-current	<u>\$ 21,225,000</u>		

Deferred Amount on Debt Defeasance, Net

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2024, are as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2024</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2024</u>
Deferred amount on debt defeasance, net	<u>\$ 1,178,100</u>	<u>\$ -</u>	<u>\$ (39,600)</u>	<u>\$ 1,138,500</u>

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2023, are as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2023</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2023</u>
Deferred amount on debt defeasance, net	<u>\$ -</u>	<u>\$ 1,191,324</u>	<u>\$ (13,224)</u>	<u>\$ 1,178,100</u>

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023*

NOTE 9 – LONG-TERM DEBT (continued)**C. Revenue Bonds Payable (continued)****Water Revenue Bonds – 2024A**

On April 1st, 2024, the Palmdale Water District Public Financing Authority (Authority) issued \$21,700,000 in Water Revenue Bonds – Series 2024A (Bonds-2024A) with maturities from 2024 through 2053 with an interest rate range coupon of 4.00% by and between the Authority and the Bank of New York Mellon Trust Company. The Bonds-2024A were issued: (i) to finance certain improvements to the District's Water system; and (ii) to pay the costs of issuing the Bonds-2024A of \$292,810. The District has pledged 100% of its water revenues to collateralize the debt. The issuance resulted in a premium on the issuance of \$646,974 which is being amortized over the remaining debt service years. Principal and interest payments are due in April and October of each year as noted.

Annual debt service requirements for the 2024A water revenue bonds payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ -	\$ 942,200	\$ 942,200
2026	-	942,200	942,200
2027	-	942,200	942,200
2028	-	942,200	942,200
2029	1,275,000	942,200	2,217,200
2030-2034	1,335,000	4,125,250	5,460,250
2035-2039	3,910,000	3,685,750	7,595,750
2040-2044	6,065,000	2,667,800	8,732,800
2045-2049	7,760,000	959,400	8,719,400
2050-2053	<u>1,355,000</u>	<u>138,400</u>	<u>1,493,400</u>
Total	21,700,000	<u>\$ 16,287,600</u>	<u>\$ 37,987,600</u>
Less: current	<u>-</u>		
Total non-current	<u>\$ 21,700,000</u>		

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 10 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Summary

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

Description	2024	2023
OPEB related deferred outflows	\$ 3,285,485	\$ 2,477,984
Net other post-employment benefits obligation	13,401,368	12,118,384
OPEB related deferred inflows	4,795,498	5,252,471

Plan Description - Eligibility

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

Plan Description - Benefits

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

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

Employees covered by benefit terms

At December 31, 2024 and 2023, the following employees were covered by the benefit terms:

Plan Members	Covered Participants	
	2024	2023
Active members	89	82
Inactives entitled to but not yet receiving benefits	-	-
Inactives currently receiving benefits	30	28
Total plan members	119	110

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 10 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)

A. Total OPEB Liability

The District's total OPEB liabilities of \$13,401,368 and \$12,118,384 as of December 31, 2024 and 2023, respectively, were measured as of December 31, 2023 and 2022 (Measurement Dates), and were determined by an actuarial valuation as of December 31, 2022.

Actuarial assumptions and other inputs

The total OPEB liability in the December 31, 2023 and 2022 (Measurement Dates) actuarial valuation roll-forwards were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	2024	2023
Discount Rate	3.26%	3.72%
Inflation	2.50%	2.50%
Salary Increases	2.75% per annum, in aggregate	2.75% per annum, in aggregate
Investment Rate of Return	4.09%	2.06%
Mortality Rate	CalPERS Membership Data	CalPERS Membership Data
Pre-Retirement Turnover	CalPERS Membership Data	CalPERS Membership Data
Healthcare Trend Rate	Non-Medicare 8.5% to Medicare 7.5%	Non-Medicare 8.5% to Medicare 7.5%

Mortality, Retirement & Turnover Assumptions

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

Discount Rate

The discount rate used to measure the total OPEB liability was 3.26% as of December 31, 2023 and 3.72% as of December 31, 2022. The projection of cash flows used to determine the discount rate assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. The Bond Buyer 20 Bond Index was used.

B. Changes in the Total OPEB Liability

The following table is based on the roll-forward of the December 31, 2023 (Measurement Date) actuarial valuation:

	Total OPEB Liability
Balance at January 1, 2024 (MD Jan. 1, 2023)	\$ 12,118,384
Changes for the year:	
Service cost	461,750
Interest	459,336
Assumption changes	826,689
Actual vs expected experience	-
Benefit payments	(464,791)
Net changes	1,282,984
Balance at December 31, 2024 (MD Dec. 31, 2023)	\$ 13,401,368

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023***NOTE 10 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)****B. Changes in the Total OPEB Liability (continued)**

The following table is based on the roll-forward of the December 31, 2022 (Measurement Date) actuarial valuation:

	Total OPEB Liability
Balance at January 1, 2023 (MD Jan. 1, 2022)	\$ 13,275,385
Changes for the year:	
Service cost	622,927
Interest	281,830
Assumption changes	(2,166,653)
Actual vs expected experience	539,319
Benefit payments	(434,424)
Net changes	(1,157,001)
Balance at December 31, 2023 (MD Dec. 31, 2022)	\$ 12,118,384

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

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

The following table is based on the December 31, 2023 (Measurement Date) actuarial valuation:

1% Decrease	Discount Rate	1% Increase
2.26%	3.26%	4.26%
\$ 15,484,746	\$ 13,401,368	\$ 11,694,308

The following table is based on the December 31, 2022 (Measurement Date) actuarial valuation:

1% Decrease	Discount Rate	1% Increase
2.72%	3.72%	4.72%
\$ 13,947,542	\$ 12,118,384	\$ 10,614,670

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023***NOTE 10 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)****B. Changes in the Total OPEB Liability (continued)****Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates**

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

The following table is based on the December 31, 2023 (Measurement Date) actuarial valuation:

<u>1% Decrease</u>	<u>Healthcare Cost Current Trend</u>	<u>1% Increase</u>
\$ 11,301,659	\$ 13,401,368	\$ 16,098,754

The following table is based on the December 31, 2022 (Measurement Date) actuarial valuation:

<u>1% Decrease</u>	<u>Healthcare Cost Current Trend</u>	<u>1% Increase</u>
\$ 10,377,099	\$ 12,118,384	\$ 14,330,945

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

For the year ended December 31, 2024 and 2023, the District recognized OPEB expense/(credit) of \$574,531 and \$467,357, respectively.

At December 31, 2024, the District reported \$3,285,485 of deferred outflows of resources and \$4,795,498 of deferred inflows of resources for related to the net OPEB obligation as follows:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date of the net OPEB liability	\$ 556,021	\$ -
Changes in assumptions	2,308,677	(2,116,772)
Net difference in earnings on plan investments	420,787	(2,678,726)
Total	<u>\$ 3,285,485</u>	<u>\$ (4,795,498)</u>

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023*

NOTE 10 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)**C. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)**

At December 31, 2024, the District reported \$556,021 of deferred outflows of resources for employer contributions made subsequent to the measurement date which will be used to reduce the net OPEB liability balance in the coming year. Amortization of the remaining deferred outflows/(inflows) of resources related to the net OPEB obligation is as follows:

	<u>Amount</u>
Year Ended June 30:	
2025	\$ (346,555)
2026	(362,356)
2027	(395,102)
2028	(337,742)
2029	(543,449)
Thereafter	<u>(80,830)</u>
Total	<u>\$ (2,066,034)</u>

At December 31, 2023, the District reported \$2,477,984 of deferred outflows of resources and \$5,252,471 of deferred inflows of resources for related to the net OPEB obligation as follows:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date of the net OPEB liability	\$ 464,791	\$ -
Changes in assumptions	2,013,193	(2,507,119)
Net difference in earnings on plan investments	<u>-</u>	<u>(2,745,352)</u>
Total	<u>\$ 2,477,984</u>	<u>\$ (5,252,471)</u>

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023*

NOTE 10 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)**C. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)**

At December 31, 2023, the District reported \$464,791 of deferred outflows of resources for employer contributions made subsequent to the measurement date which will be used to reduce the net OPEB liability balance in the coming year. Amortization of the remaining deferred outflows/(inflows) of resources related to the net OPEB obligation is as follows:

	<u>Amount</u>
Year Ended June 30:	
2024	\$ (437,400)
2025	(437,400)
2026	(453,201)
2027	(485,947)
2028	(428,587)
Thereafter	<u>(996,743)</u>
Total	<u>\$ (3,239,278)</u>

NOTE 11 – PENSION PLAN**Summary**

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

<u>Description</u>	<u>2024</u>	<u>2023</u>
Pension related deferred outflows	\$ 3,832,227	\$ 5,348,034
Net pension liability	15,049,931	15,115,381
Pension related deferred inflows	273,549	552,482

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by agencies of the State of California known as the California Public Employees' Retirement System (CalPERS), or "The Plan". The net pension liability balances have a Measurement Date of June 30, 2024 and June 30, 2023, respectively, which are rolled-forward for the District's fiscal years ended December 31, 2024 and December 31, 2023.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 11 – PENSION PLAN (continued)

A. General Information about the Pension Plan

The Plan

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

	Miscellaneous Plans	
	Classic Tier 1	PEPRA Tier 2
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required member contribution rates	7.000%	7.750%
Required employer contribution rates – FY 2024	10.870%	7.470%
Required employer contribution rates – FY 2023	10.880%	7.590%

Plan Description, Benefits Provided and Employees Covered

The Plan is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). The District contributes to the miscellaneous risk pool within the Plan. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2023 Annual Actuarial Valuation Report. This report is a publicly available valuation report that can be obtained at CalPERS website under Forms and Publications.

The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement benefits are applied, and places compensation limits on members. As a result of these changes since PEPRA's adoption in January 2013, the District now has two unique CalPERS plans to which it makes contributions within the miscellaneous risk pool: the "classic" plan, which includes covered employees who have established membership in a CalPERS plan prior to January 2013, as well as the "PEPRA/new" plan, which includes covered employees who have established membership in a CalPERS plan after January 2013. Each plan or membership contains unique benefits levels, which are enumerated in the June 30, 2024 and 2023 Annual Actuarial Valuation Reports.

At June 30, 2024, the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Active members	41	45	86
Transferred and terminated members	42	17	59
Retired members and beneficiaries	75	2	77
Total plan members	158	64	222

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023***NOTE 11 – PENSION PLAN (continued)****A. General Information about the Pension Plan (continued)****Plan Description, Benefits Provided and Employees Covered (continued)**

At June 30, 2023, the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Active members	45	40	85
Transferred and terminated members	40	12	52
Retired members and beneficiaries	72	2	74
Total plan members	157	54	211

Contribution Description

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

Contributions for the year ended December 31, 2024, (Measurement Date June 30, 2024) were as follows:

Contribution Type	Total
Contributions – employer	\$ 1,912,883

Contributions for the year ended December 31, 2023, (Measurement Date June 30, 2023) were as follows:

Contribution Type	Total
Contributions – employer	\$ 1,819,240

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

For the years ended December 31, 2024 and 2023, the contributions recognized as part of pension expense for the Plan were \$1,912,883 and \$1,819,240.

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023***NOTE 11 – PENSION PLAN (continued)****B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)*****Proportionate Share of Net Pension Liability and Pension Expense***

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

Changes in the net pension liability for the year ended December 31, 2024, were as follows:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2023 (Measurement Date)	\$ 62,045,785	\$ 46,930,404	\$ 15,115,381
Balance as of June 30, 2024 (Measurement Date)	\$ 66,426,067	\$ 51,376,136	\$ 15,049,931
Change in Plan Net Pension Liability	\$ 4,380,282	\$ 4,445,732	\$ (65,450)

Changes in the net pension liability for the year ended December 31, 2023, were as follows:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2022 (Measurement Date)	\$ 57,665,907	\$ 43,935,805	\$ 13,730,102
Balance as of June 30, 2023 (Measurement Date)	\$ 62,045,785	\$ 46,930,404	\$ 15,115,381
Change in Plan Net Pension Liability	\$ 4,379,878	\$ 2,994,599	\$ 1,385,279

For the year ended December 31, 2024, and 2023 pension expenses were \$2,205,355 and \$2,912,340, respectively.

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

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation dates (June 30, 2023 and 2022). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2024 and 2023). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2024 and 2023 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY 2023-2024 and FY 2022-2023).
- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 11 – PENSION PLAN (continued)

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

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

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

As of December 31, 2024 and 2023, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$15,049,931 and \$15,115,381, respectively.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of December 31, 2023 and 2022, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022 and 2021 rolled forward to December 31, 2023 and 2022 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the June 30, 2024, measurement date was as follows:

	Percentage Share of Risk Pool		
	Fiscal Year Ending December 31, 2024	Fiscal Year Ending December 31, 2023	Change Increase/ (Decrease)
Measurement Date	June 30, 2024	June 30, 2023	
Percentage of Risk Pool Net Pension Liability	0.31117%	0.30228%	0.00889%
Percentage of Plan (PERF C) Net Pension Liability	0.12410%	0.12116%	0.00294%

The District's proportionate share of the net pension liability for the June 30, 2023, measurement date was as follows:

	Percentage Share of Risk Pool		
	Fiscal Year Ending December 31, 2023	Fiscal Year Ending December 31, 2022	Change Increase/ (Decrease)
Measurement Date	June 30, 2023	June 30, 2022	
Percentage of Risk Pool Net Pension Liability	0.30228%	0.29343%	0.00885%
Percentage of Plan (PERF C) Net Pension Liability	0.12116%	0.11887%	0.00229%

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023***NOTE 11 – PENSION PLAN (continued)****B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)*****Proportionate Share of Net Pension Liability and Pension Expense (continued)***

The total amount of \$1,033,933 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2025. At December 31, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Account Description	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Pension contributions made after the measurement date	\$ 1,033,933	\$ -
Difference between actual and proportionate share of employer contributions	-	(207,340)
Adjustment due to differences in proportions	243,870	(15,438)
Differences between expected and actual experience	1,301,204	(50,771)
Differences between projected and actual earnings on pension plan investments	866,406	-
Changes in assumptions	386,814	-
Total Deferred Outflows/(Inflows) of Resources	\$ 3,832,227	\$ (273,549)

The total amount of \$964,493 reported as deferred outflows of resources related to contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended December 31, 2024. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Account Description	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Pension contributions made after the measurement date	\$ 964,493	\$ -
Difference between actual and proportionate share of employer contributions	-	(395,205)
Adjustment due to differences in proportions	251,465	(37,494)
Differences between expected and actual experience	772,176	(119,783)
Differences between projected and actual earnings on pension plan investments	2,447,316	-
Changes in assumptions	912,584	-
Total Deferred Outflows/(Inflows) of Resources	\$ 5,348,034	\$ (552,482)

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 11 – PENSION PLAN (continued)

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

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

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2024, will be amortized to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended December 31	Deferred Outflows/(Inflows) of Resources
2025	\$ 814,811
2026	1,969,920
2027	36,921
2028	(296,907)
Total	\$ 2,524,745

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2023, will be amortized to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended December 31	Deferred Outflows/(Inflows) of Resources
2024	\$ 1,115,086
2025	760,162
2026	1,885,587
2027	70,224
Total	\$ 3,831,059

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2024 and 2023 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2023 and 2022, total pension liability. The December 31, 2024 and 2023, total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry age normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.30% thereafter

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 11 – PENSION PLAN (continued)

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

Discount Rate

The discount rate used to measure the total pension liability for PERF B was 6.90%. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF B. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS' website.

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

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

Asset Class ¹	Assumed Asset	Real Return ^{1,2}
	Allocation	
Global Equity - Cap-weighted	30.0%	4.54%
Global Equity - Non-Cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%
	100.0%	

¹ An expected inflation of 2.30% used for this period.

² Figures are based on the 2022 Asset Liability Management Study.

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

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

Changes in the discount rate for the year ended June 30, 2024, was as follows:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1%	Current Discount	Discount Rate + 1%
	5.90%	Rate 6.90%	7.90%
CalPERS – Miscellaneous Plan	\$ 24,013,490	\$ 15,049,931	\$ 7,671,602

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2024 and 2023***NOTE 11 – PENSION PLAN (continued)****B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)*****Sensitivity of the Net Pension Liability to Changes in the Discount Rate (continued)***

Changes in the discount rate for the year ended June 30, 2023, was as follows:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% 5.90%	Current Discount Rate 6.90%	Discount Rate + 1% 7.90%
CalPERS – Miscellaneous Plan	\$ 23,506,809	\$ 15,115,381	\$ 8,208,514

Pension Plan Fiduciary Net Position

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

C. Payable to the Pension Plans

At December 31, 2024 and 2023, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the year ended December 31, 2024 and 2023.

NOTE 12 – NET POSITION – NET INVESTMENT IN CAPITAL ASSETS

The District's net-position – net investment in capital assets for the years ended December 31, 2024 and 2023 were calculated as follows:

Description	Balance Dec. 31, 2024	Balance Dec. 31, 2023
Restricted – cash and cash equivalents		
– revenue bond proceeds for construction	\$ 27,663,117	\$ 14,381,169
Capital assets – not being depreciated	34,860,737	22,354,621
Capital assets, net – being depreciated	164,942,598	163,456,599
Deferred loss on debt defeasance, net	1,138,500	1,178,100
Right-to-use lease payable – current	(147,844)	(109,022)
Right-to-use asset financing – current	(479,423)	(463,073)
Revenue bonds payable – current	(2,899,916)	(671,666)
Right-to-use lease payable	(256,512)	(119,618)
Right-to-use asset financing	(1,010,222)	(1,489,646)
Revenue bonds payable, net	(96,846,619)	(77,496,425)
Total net investment in capital assets	\$ 126,964,416	\$ 121,021,039

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 13 – NET POSITION – UNRESTRICTED (DEFICIT)

As of December 31, 2024 and 2023, the District had an unrestricted net position deficit of (\$9,075,033) and (\$13,087,747). Due to the nature of the deficit from the implementation of GASB Statements No. 68 & 75 in the past fiscal years, the District will continue to make its actuarial determined contributions to CalPERS and annually review its outstanding net pension and net OPEB obligations funding requirements for future periods to reduce its deficit position.

NOTE 14 – PRIOR PERIOD ADJUSTMENT

Beginning net position as of January 1, 2024, was restated by \$729,861, for the District's retroactive restatement for the adoption of *GASB No. 101 - Compensated Absences* as noted below:

<u>Description</u>	<u>Balance</u>
Net position as of January 1, 2024 – as previously reported	\$ 110,897,567
GASB Statement No. 101 restatement for:	
Compensated absences	<u>(729,861)</u>
Total adjustments	<u>(729,861)</u>
Net position as of January 1, 2022 – as restated	<u><u>\$ 110,167,706</u></u>

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 15 – RISK MANAGEMENT

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

A. Entity	ACWA-JPIA
B. Purpose	To pool member contributions and realize the
C. Participants	As of September 30, 2024 – 401 member districts
D. Governing board	Nine representatives employed by members
E. District payments for FY 2024:	\$494,749
F. Condensed financial information	September 30, 2024
Audit signed	March 27, 2025

Statement of financial position:	Sept. 30, 2024
Total assets	<u>\$ 308,144,466</u>
Deferred outflows	<u>3,099,110</u>
Total liabilities	<u>177,706,110</u>
Deferred inflows	<u>4,357,741</u>
Net position	<u><u>\$ 129,179,725</u></u>
Statement of revenues, expenses and changes in net position:	
Total revenues	\$ 261,895,930
Total expenses	<u>(253,429,117)</u>
Change in net position	8,466,813
Beginning – net position	<u>120,712,912</u>
Ending – net position	<u><u>\$ 129,179,725</u></u>
G. Member agencies share of year-end financial position	Not Calculated

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. At December 31, 2024 and 2023, the District participated in the self-insured liability, property, and worker's compensation insurance programs provided by ACWA/JPIA through AON Risk Insurance Services West, Inc. as follows:

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 15 – RISK MANAGEMENT (continued)

General and Auto Liability

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

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

Property

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

The following is an overview of the program:

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

Workers' Compensation

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

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

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

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending December 31, 2024, 2023, and 2022. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of December 31, 2024, 2023, and 2022.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 16 – DEFERRED COMPENSATION SAVINGS PLAN

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

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

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

NOTE 17 – RISK DISCLOSURE: CONCENTRATION OF REVENUE SOURCE (GASB STATEMENT NO. 102)

The District is subject to systematic risk due to receiving over 27.43% of its revenues from water sales. This dependence exposes the District to potential service interruptions or financial impacts in the event of drought conditions, regulatory restrictions, or contamination of the water source. Although the District has contingency plans and infrastructure in place to supplement supply in emergencies, such alternatives may not fully meet demand or could result in significant additional costs.

The District continues to evaluate and implement diversification strategies, including the development of groundwater recharge projects, recycled water programs, and rate structure adjustments to mitigate these concentration risks.

In accordance with GASB Statement No. 102, Certain Risk Disclosures, this note serves to disclose the concentration of revenue and associated risks that could significantly impact the District's financial position and results of operations.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 18 – COMMITMENTS AND CONTINGENCIES (continued)

State Water Contract

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

<u>Fiscal Year</u>	<u>Amount</u>
2025	9,499,653
2026	9,013,626
2027	9,045,633
2028	9,163,408
2029	9,174,658

As of December 31, 2024, the District has expended approximately \$146,288,460 since the District started participating in the State Water Contract.

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

<u>Type of Long-Term Obligation</u>	<u>Amount</u>
State Water Project Contract:	
Transportation facilities	\$76,134,171
Delta water charges	21,679,812
Off-aqueduct power facilities	50,044
Revenue bond surcharge	<u>3,729,056</u>
Total	<u>\$101,593,083</u>

Bay/Delta Regulatory and Planning Activities

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 18 – COMMITMENTS AND CONTINGENCIES (continued)

Construction Contracts

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

The District has committed to approximately \$37,369,962 to complete the open construction contracts as of December 31, 2024. These include the following:

<u>Project Description</u>	<u>Cost of Project to Date</u>	<u>Estimated Costs to Complete</u>	<u>Total Expected Project Cost</u>
Littlerock Creek Groundwater Recharge Project	\$ 4,209,279	\$ 790,721	\$ 5,000,000
Pure Water AV Design & Build (Demo Facility)	3,448,396	21,426,374	24,874,770
Ditch Conversion Project	3,423,563	15,152,867	18,576,430
Total	<u>\$ 11,081,238</u>	<u>\$ 37,369,962</u>	<u>\$ 48,451,200</u>

Excluded Leases – Short-Term Leases and De Minimis Leases

The District 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.

Other Litigation

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

NOTE 19 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through June 23, 2025, the date on which the financial statements were available to be issued.

Required Supplementary Information

PALMDALE WATER DISTRICT*Schedule of Proportionate Share of the Net Pension Liability
For the Years Ended December 31, 2024 and 2023***Last Ten Fiscal Years*****California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

Measurement Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability
June 30, 2014	0.10201%	\$ 6,347,533	\$ 6,027,591	105.31%	79.93%
June 30, 2015	0.09802%	6,727,907	6,377,315	105.50%	79.62%
June 30, 2016	0.10037%	8,685,489	6,778,010	128.14%	75.59%
June 30, 2017	0.10166%	10,081,661	6,482,822	155.51%	74.68%
June 30, 2018	0.10180%	9,809,458	6,735,592	145.64%	76.68%
June 30, 2019	0.10434%	10,691,338	7,391,878	144.64%	75.92%
June 30, 2020	0.10637%	11,573,771	7,675,493	150.79%	75.79%
June 30, 2021	0.11199%	6,056,636	8,369,880	72.36%	88.25%
June 30, 2022	0.11887%	13,730,102	8,690,330	157.99%	76.19%
June 30, 2023	0.12116%	15,115,381	9,107,356	165.97%	75.64%
June 30, 2024	0.12410%	15,049,931	9,506,402	158.31%	77.34%

Notes to Schedule:**Benefit Changes:**

There were no changes in benefits.

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

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

From fiscal year June 30, 2016 to June 30, 2021:

There were no changes in assumptions.

From fiscal year June 30, 2021 to June 30, 2022:

The discount rate was reduced from 7.15% to 6.90%, and the the inflation rate as reduced from 2.50% to 2.30%.

From fiscal year June 30, 2022 to June 30, 2023:

There were no significant changes in assumptions.

From fiscal year June 30, 2023 to June 30, 2024:

There were no significant changes in assumptions.

PALMDALE WATER DISTRICT
Schedule of Pension Contributions
For the Years Ended December 31, 2024 and 2023

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 805,370	\$ (805,370)	\$ -	\$ 6,377,315	12.63%
2015	819,205	(819,205)	-	6,778,010	12.09%
2016	945,678	(945,678)	-	6,482,822	14.59%
2017	1,026,759	(1,026,759)	-	6,735,592	15.24%
2018	1,178,448	(1,178,448)	-	7,391,878	15.94%
2019	1,373,023	(1,373,023)	-	7,675,493	17.89%
2020	1,559,864	(1,559,864)	-	8,369,880	18.64%
2021	1,655,630	(1,655,630)	-	8,690,330	19.05%
2022	1,789,211	(1,789,211)	-	9,107,356	19.65%
2023	1,859,194	(1,859,194)	-	9,506,402	19.56%
2024	1,982,324	(1,982,324)	-	9,598,238	20.65%

Notes to Schedule:

Measurement Date	Valuation Date	Actuarial Cost Method	Asset Valuation Method	Inflation	Investment Rate of Return
June 30, 2014	June 30, 2013	Entry Age	Fair Value	2.75%	7.50%
June 30, 2015	June 30, 2014	Entry Age	Fair Value	2.75%	7.65%
June 30, 2016	June 30, 2015	Entry Age	Fair Value	2.75%	7.65%
June 30, 2017	June 30, 2016	Entry Age	Fair Value	2.75%	7.65%
June 30, 2018	June 30, 2017	Entry Age	Fair Value	2.75%	7.15%
June 30, 2019	June 30, 2018	Entry Age	Fair Value	2.50%	7.15%
June 30, 2020	June 30, 2019	Entry Age	Fair Value	2.50%	7.15%
June 30, 2021	June 30, 2020	Entry Age	Fair Value	2.50%	7.15%
June 30, 2022	June 30, 2021	Entry Age	Fair Value	2.30%	6.90%
June 30, 2023	June 30, 2022	Entry Age	Fair Value	2.30%	6.90%
June 30, 2024	June 30, 2023	Entry Age	Fair Value	2.30%	6.90%

Amortization Method

Level percentage of payroll, closed

Salary Increases

Depending on age, service, and type of employment

Investment Rate of Return

Net of pension plan investment expense, including inflation

Retirement Age

50 years (2%@55), 52 years (2%@62)

Mortality

Mortality assumptions are based on mortality rates resulting from the

PALMDALE WATER DISTRICT

Schedule of Changes in the District's Total OPEB Liability and Related Ratios For the Years Ended December 31, 2024 and 2023

	Last Ten Fiscal Years*						
Fiscal Year Ended	Dec. 31, 2024	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Measurement Date	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Total OPEB liability:							
Service cost	\$ 461,750	\$ 622,927	\$ 596,605	\$ 677,977	\$ 459,128	\$ 533,709	\$ 471,435
Interest	459,336	281,830	278,018	464,926	542,470	480,852	475,129
Changes of assumptions	826,689	(2,166,653)	117,793	231,952	2,835,458	(1,339,825)	695,190
Differences between expected and actual experience	-	539,319	-	(4,865,442)	-	-	-
Changes of benefit terms	-	-	-	142,064	-	-	-
Benefit payments	(464,791)	(434,424)	(468,905)	(379,410)	(322,930)	(307,191)	(283,520)
Net change in total OPEB liability	1,282,984	(1,157,001)	523,511	(3,727,933)	3,514,126	(632,455)	1,358,234
Total OPEB liability - beginning	12,118,384	13,275,385	12,751,874	16,479,807	12,965,681	13,598,136	12,239,902
Total OPEB liability - ending	\$ 13,401,368	\$ 12,118,384	\$ 13,275,385	\$ 12,751,874	\$ 16,479,807	\$ 12,965,681	\$ 13,598,136
Covered-employee payroll	\$ 9,506,402	\$ 9,107,356	\$ 9,492,550	\$ 8,522,694	\$ 8,492,001	\$ 8,067,557	\$ 7,459,193
District's net OPEB liability as a percentage of covered-employee payroll	140.97%	133.06%	139.85%	149.62%	194.06%	160.71%	182.30%

Notes to Schedule:

Benefit Changes:

Measurement Date December 31, 2017 – There were no changes in benefits
Measurement Date December 31, 2018 – There were no changes in benefits
Measurement Date December 31, 2019 – There were no changes in benefits
Measurement Date December 31, 2020 – There were no changes in benefits
Measurement Date December 31, 2021 – There were no changes in benefits
Measurement Date December 31, 2022 – There were no changes in benefits
Measurement Date December 31, 2023 – There were no changes in benefits

Changes in Assumptions:

Measurement Date December 31, 2017 – Discount rate was updated to 3.44% from 3.78% as of December 31, 2016
Measurement Date December 31, 2018 – Discount rate was updated to 4.09% from 3.44% as of December 31, 2017
Measurement Date December 31, 2019 – Discount rate was updated to 2.74% from 4.09% as of December 31, 2018
Measurement Date December 31, 2020 – Discount rate was updated to 2.12% from 2.74% as of December 31, 2019
Measurement Date December 31, 2021 – Discount rate was updated to 2.06% from 2.12% as of December 31, 2020
Measurement Date December 31, 2022 – Discount rate was updated to 3.72% from 2.06% as of December 31, 2021
Measurement Date December 31, 2023 – Discount rate was updated to 3.26% from 3.72% as of December 31, 2022

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

PALMDALE WATER DISTRICT

Schedule of OPEB Contributions

For the Years Ended December 31, 2024 and 2023

Last Ten Fiscal Years*

The Plan is not administered through a qualified trust.

Therefore, there is no Actuarially Determined Contribution (ADC)

Fiscal Year Ended	Dec. 31, 2024	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Contributions made	\$ 359,711	\$ 359,711	\$ 345,386	\$ 381,892	\$ 305,410	\$ 245,893	\$ 240,695
Implied subsidy	105,080	105,080	89,038	87,013	74,000	77,037	66,496
Total contributions	<u>\$ 464,791</u>	<u>\$ 464,791</u>	<u>\$ 434,424</u>	<u>\$ 468,905</u>	<u>\$ 379,410</u>	<u>\$ 322,930</u>	<u>\$ 307,191</u>

Notes to Schedule:

Valuation Date	Dec. 31, 2022	Dec. 31, 2022	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Methods and Assumptions Used to Determine Contribution Rates:							
Discount rate	3.26%	3.72%	2.12%	2.12%	2.74%	4.09%	3.44%
Inflation	2.50%	2.50%	2.50%	2.50%	2.75%	2.75%	2.75%
Payroll increases	2.75%	2.75%	2.75%	2.75%	3.00%	3.00%	3.00%
Mortality	1	1	1	1	1	1	1
Disability	1	1	1	1	1	1	1
Retirement	1	1	1	1	1	1	1
Termination	1	1	1	1	1	1	1
Healthcare trend rates	2	2	2	2	2	2	2

(1) CalPERS 2000-2019 Experience Study

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

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

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

Supplementary Information

PALMDALE WATER DISTRICT*Schedules of Debt Service Net Revenues Coverage**For the Year Ended December 31, 2024 and 2023*

Total revenues:	2024	2023
Operating revenues	\$ 37,281,690	\$ 34,573,330
Non-operating revenues	14,726,501	11,264,102
Capital contributions – capital improvement fees and grants	<u>2,288,403</u>	<u>2,098,393</u>
Total revenues	<u>54,296,594</u>	<u>47,935,825</u>
Total expenses:		
Operating expenses before depreciation expense	<u>30,785,731</u>	<u>31,452,823</u>
Non-operating expenses	8,585,600	7,554,097
Less debt service items:		
Interest expense – long-term debt	<u>(3,307,446)</u>	<u>(2,733,668)</u>
Total non-operating expenses adjusted for debt service items	<u>5,278,154</u>	<u>4,820,429</u>
	<u>36,063,885</u>	<u>36,273,252</u>
Net revenues available for debt service	<u>\$ 18,232,709</u>	<u>\$ 11,662,573</u>
Debt service for the fiscal year	<u>\$ 4,326,263</u>	<u>\$ 3,806,091</u>
Debt service net revenues coverage ratio	<u>421%</u>	<u>306%</u>

Other Independent Auditors' Reports



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

Board of Directors
Palmdale Water District
Palmdale, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palmdale Water District (District) as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 23, 2025.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Murrieta, California
June 23, 2025