PALMDALE WATER DISTRICT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

For the Years Ended
December 31, 2025 and 2024

NIGRO & NIGRO PC

PALMDALE WATER DISTRICT
For the Years Ended December 31, 2025 and 2024
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NIGRO & NIGRO PC
A Professional Accountancy Corporation

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, 2025 and 2024, 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, 2025 and 2024, 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.

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.

Jeff Nigro, CPA, CFE | Shannon Bishop, CPA | Peter Glenn, CPA, CFE | Paul J. Kaymark, CPA | Jessica Berry, CPA | Angelika Vartikyan, CPA | Jared Solmonsen, CPA

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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 July 27, 2026, 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.

Nigro & Nigro, PC

Murrieta, California
July 27, 2026

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, 2025 and 2024. 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 2025, the District's net position increased 21.30% or $25,586,048 from the prior year's net position of $120,144,730 to $145,730,778, as a result of this year's operations.

- 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 2025, the District's operating revenues increased by 16.95% or $6,317,731 from $37,281,690 to $43,599,421, from the prior year, primarily due to an increase in Water sales – commodity charge of $2,774,582 as well as an increase in monthly meter service charges of $2,561,552.

- 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 2025, the District's operating expenses before overhead absorption and depreciation expense increased by 6.98% or $2,147,878 from $32,182,684 to $30,785,731, from the prior year, primarily due to an increase in source of supply – water purchases of $1,727,771.

- In 2024, the District's operating expenses before overhead absorption and depreciation expense decreased by 4.34% or $1,396,953 from $30,785,731to $32,933,609, from the prior year, primarily due to a decrease in source of supply – water purchases of $2,163,263.

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, 2025 and 2024. These financial statements have been prepared using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

REQUIRED FINANCIAL STATEMENTS

Balance 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 $145,730,778 and $120,144,730 as of December 31, 2025 and 2024, 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, 2025, net position from operations increased $25,586,048. For the year ended December 31, 2024, net position from operations increased $9,977,024.

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 2025, the total of these categories represents a decrease in cash and cash equivalents of $11,268,870, which is deducted from the beginning cash and cash equivalents of $35,270,833, to arrive at ending cash and cash equivalents of $24,001,963. For 2024, the total of these categories represents an 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.

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Balance Sheets

	Balance, Dec. 31, 2025	Balance, Dec. 31, 2024	Change	Balance, Dec. 31, 2023	Change
Assets:					
Current assets	$ 40,648,230	$ 34,090,057	$ 6,558,173	$ 27,874,940	$ 6,215,117
Non-current assets	12,151,011	30,058,905	(17,907,894)	16,882,312	13,176,593
Capital assets, net	232,973,748	199,803,335	33,170,413	185,811,219	13,992,116
Total assets	285,772,989	263,952,297	21,820,692	230,568,471	33,383,826
Deferred outflows of resources	8,104,998	8,256,212	(151,214)	9,004,118	(747,906)
Total assets and deferred outflows	$ 293,877,987	$ 272,208,509	$ 21,669,478	$ 239,572,589	$ 32,635,920
Liabilities:					
Current liabilities	$ 18,733,278	$ 14,729,724	$ 4,003,554	$ 11,467,697	$ 3,262,027
Non-current liabilities	121,399,310	127,234,720	(5,835,410)	107,486,802	19,747,918
Total liabilities	140,132,588	141,964,444	(1,831,856)	118,954,499	23,009,945
Deferred inflows of resources	8,014,621	10,099,335	(2,084,714)	10,450,384	(351,049)
Net position:					
Net investment in capital assets	145,542,786	126,964,416	18,578,370	121,021,039	5,943,377
Restricted	2,040,182	2,255,347	(215,165)	2,234,414	20,933
Unrestricted	(1,852,190)	(9,075,033)	7,222,843	(13,087,747)	4,012,714
Total net position	145,730,778	120,144,730	25,586,048	110,167,706	9,977,024
Total liabilities, deferred inflows and net position	$ 293,877,987	$ 272,208,509	$ 21,669,478	$ 239,572,589	$ 32,635,920

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

The District's Net Position as of December 31, 2025, totaled $145,730,778 compared with $120,144,730 as of December 31, 2024, an increase of 21.30%.

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%.

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.

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, 2025	Balance, Dec. 31, 2024	Change	Balance, Dec. 31, 2023	Change
Operating revenues	$ 43,599,421	$ 37,281,690	$ 6,317,731	$ 34,573,330	$ 2,708,360
Operating expenses	(32,933,609)	(30,785,731)	(2,147,878)	(32,182,684)	1,396,953
Operating income before overhead absorption	10,665,812	6,495,959	4,169,853	2,390,646	4,105,313
Overhead absorption	1,666,500	1,000,439	666,061	202,747	797,692
Operating income before depreciation	12,332,312	7,496,398	4,835,914	2,593,393	4,903,005
Depreciation expense	(6,006,204)	(5,748,358)	(257,846)	(5,725,517)	(22,841)
Operating income(loss) after depreciation	6,326,108	1,748,040	4,578,068	(3,132,124)	4,880,164
Non-operating revenues(expenses), net	4,691,625	5,940,581	(1,248,956)	3,538,459	2,402,122
Net income(loss) before capital contributions	11,017,733	7,688,621	3,329,112	406,335	7,282,286
Capital contributions	14,568,315	2,288,403	12,279,912	2,098,393	190,010
Change in net position	25,586,048	9,977,024	15,609,024	2,504,728	7,472,296
Net position:					
Beginning of year, as restated	120,144,730	110,167,706	9,977,024	107,662,978	2,504,728
End of year	$ 145,730,778	$ 120,144,730	$ 25,586,048	$ 110,167,706	$ 9,977,024

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 $25,586,048, $9,977,024, and $2,504,728, for the years ended December 31, 2025, 2024, and 2023 respectively.

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Total Revenues

	Balance, Dec. 31, 2025	Balance, Dec. 31, 2024	Change	Balance, Dec. 31, 2023	Change
Operating revenues:					
Water sales – commodity charge	$ 17,393,743	$ 14,619,161	$ 2,774,582	$ 13,741,868	$ 877,293
Water sales – wholesale	558,357	273,056	285,301	210,495	62,561
Monthly meter service charge	22,901,707	20,340,155	2,561,552	18,475,947	1,864,208
Water quality fees	344,662	416,112	(71,450)	511,918	(95,806)
Elevation fees	316,305	382,474	(66,169)	320,606	61,868
Other charges for services	2,084,647	1,250,732	833,915	1,312,496	(61,764)
Total operating revenues	43,599,421	37,281,690	6,317,731	34,573,330	2,708,360
Non-operating:					
Property taxes – ad valorem	2,953,701	3,528,364	(574,663)	2,909,289	619,075
Property tax assessment for State Water Project	6,220,950	7,268,052	(1,047,102)	6,009,593	1,258,459
Successor agency component of property taxes	1,023,448	980,220	43,228	998,755	(18,535)
Rental revenue – cellular towers	180,653	274,193	(93,540)	185,449	88,744
Investment earnings	1,422,343	987,740	434,603	573,644	414,096
Change in investment – PRWA	(215,165)	20,933	(236,098)	27,632	(6,699)
Legal and insurance refunds/settlements	-	-	-	48,000	(48,000)
Department of Water Resources – FCR	425,798	443,653	(17,855)	388,705	54,948
Other non-operating revenues	178,383	1,223,346	(1,044,963)	123,035	1,100,311
Total non-operating	12,190,111	14,726,501	(2,536,390)	11,264,102	3,462,399
Total revenues	$ 55,789,532	$ 52,008,191	$ 3,781,341	$ 45,837,432	$ 6,170,759

In 2025, the District's operating revenues increased by 16.95% or $6,317,731 from $37,281,690 to $43,599,421, from the prior year, primarily due to an increase in Water sales – commodity charge of $2,774,582 as well as an increase in monthly meter service charges of $2,561,552.

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.

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Total Expenses

	Balance, Dec. 31, 2025	Balance, Dec. 31, 2024	Change	Balance, Dec. 31, 2023	Change
Operating expenses:					
Source of supply – water purchases	$ 4,282,228	$ 2,554,457	$ 1,727,771	$ 4,717,720	$ (2,163,263)
Operations and production	5,075,912	5,174,695	(98,783)	4,463,854	710,841
Facilities	7,487,548	7,732,070	(244,522)	7,875,231	(143,161)
Engineering	2,243,585	2,020,555	223,030	2,022,322	(1,767)
Water conservation	462,542	364,375	98,167	428,286	(63,911)
Administration	9,235,952	8,834,484	401,468	8,936,634	(102,150)
Finance and customer care	4,145,842	4,105,095	40,747	3,738,637	366,458
Operating expenses before overhead absorption	32,933,609	30,785,731	2,147,878	32,182,684	(1,396,953)
Overhead absorption	(1,666,500)	(1,000,439)	(666,061)	(202,747)	(797,692)
Operating expenses before depreciation	31,267,109	29,785,292	1,481,817	31,979,937	(2,194,645)
Depreciation and amortization	6,006,204	5,748,358	257,846	5,725,517	22,841
Total operating expenses	37,273,313	35,533,650	1,739,663	37,705,454	(2,171,804)
Non-operating expenses:					
Cost of debt issuance	-	292,810	(292,810)	327,759	(34,949)
State Water Project amortization expense	3,738,972	4,985,344	(1,246,372)	4,492,670	492,674
Rate assistance program expense	199,907	200,320	(413)	171,546	28,774
Interest expense – long-term debt	3,559,607	3,307,446	252,161	2,733,668	573,778
Total non-operating	7,498,486	8,785,920	(1,287,434)	7,725,643	1,060,277
Total expenses	$ 44,771,799	$ 44,319,570	$ 452,229	$ 45,431,097	$ (1,111,527)

In 2025, the District's operating expenses before overhead absorption and depreciation expense increased by 6.98% or $2,147,878 from $32,182,684 to $30,785,731, from the prior year, primarily due to an increase in source of supply – water purchases of $1,727,771.

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.

CAPITAL ASSETS

At the end of 2025, 2024 and 2023, the District's investment in capital assets was $232,973,748, $199,803,335, and $185,811,219, net of accumulated depreciation, respectively. Capital asset additions during the years ended December 31, 2025, and 2024 were $36,840,856 and $17,134,506, 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 $6,006,204 and $5,748,358 for the fiscal years ended December 31, 2025, and 2024, respectively.

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

Capital assets:	Balance, Dec. 31, 2025	Balance, Dec. 31, 2024	Balance, Dec. 31, 2023
Non-depreciable assets	$ 62,795,522	$ 34,860,737	$ 22,354,621
Depreciable assets	398,675,719	383,767,247	372,436,615
Accumulated depreciation and amortization	(228,497,493)	(218,824,649)	(208,980,017)
Total capital assets, net	$ 232,973,748	$ 199,803,335	$ 185,811,219

LONG-TERM DEBT

At year-end the District had $98.4 million in direct finance purchases, lease payables, and revenue bonds payables – a decrease of $3,253,629 and an increase $21,291,086 in 2025 and 2024 respectively – as shown in Table A-6. (More detailed information about the District's long-term liabilities is presented in Notes 7 and 9 to the financial statements).

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

Long-term debt:	Balance, Dec. 31, 2025	Balance, Dec. 31, 2024	Balance, Dec. 31, 2023
Direct finance purchase	$ 1,010,223	$ 1,489,645	$ 1,952,719
Lease payable	632,773	404,356	228,640
Revenue bonds payable, net – 2018	12,567,789	12,894,835	13,206,881
Revenue refunding bonds – non-taxable – 2020	8,911,349	8,925,578	8,939,354
Revenue refunding bonds – taxable – 2020	13,685,000	13,855,000	14,025,000
Revenue bonds – 2021A	10,138,148	10,167,392	10,196,636
Revenue refunding bonds – 2021	7,507,790	9,933,930	10,146,820
Revenue bonds payable, net - 2023	21,624,600	21,639,000	21,653,400
Revenue bonds payable, net - 2024	22,309,235	22,330,800	-
Total	$ 98,386,907	$ 101,640,536	$ 80,349,450

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 2025.

- The District has untaken 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, 2025 was at 15,833-acre feet compared to 15,939-acre feet for the year ended December 31, 2024.

- The District's assessed valuation has increased to $2.89 billion for FY 2024/2025 from $2.73 billion for FY 2023/2024.

- The District received $3 million in ad valorem property tax revenue for 2025.

- The District received $1,023,448 in successor agency component property taxes for 2025.

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, 2025 and 2024

ASSETS	2025	2024
Current assets:		
Cash and cash equivalents (Note 2)	$ 14,144,918	$ 7,607,716
Investments (Note 2)	10,287,061	11,442,432
Accrued interest receivable	40,420	130,337
Accounts receivable – water sales and services, net (Note 3)	3,112,110	3,004,734
Accounts receivable – property taxes and assessments	1,073,898	6,802,631
Lease receivable (Note 4)	140,411	126,287
Accounts receivable – other	9,388,355	2,153,074
Materials and supplies inventory	1,412,713	1,876,904
Prepaid expenses	1,048,344	945,942
Total current assets	40,648,230	34,090,057
Non-current assets:		
Restricted – cash and cash equivalents (Note 2)	9,857,045	27,663,117
Lease receivable (Note 4)	253,784	140,441
Investment in Palmdale Recycled Water Authority (Note 5)	2,040,182	2,255,347
Capital assets – not being depreciated (Note 6)	62,795,522	34,860,737
Capital assets – being depreciated, net (Note 6)	170,178,226	164,942,598
Total non-current assets	245,124,759	229,862,240
Total assets	285,772,989	263,952,297
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt defeasance, net (Note 9)	1,098,900	1,138,500
Deferred amounts related to total OPEB liability (Note 10)	4,131,759	3,285,485
Deferred amounts related to net pension liability (Note 11)	2,874,339	3,832,227
Total deferred outflows of resources	8,104,998	8,256,212
Total assets and deferred outflows of resources	$ 293,877,987	$ 272,208,509

PALMDALE WATER DISTRICT
Balance Sheets (continued)
December 31, 2025 and 2024

LIABILITIES	**2025**	**2024**
Current liabilities:		
Accounts payable and accrued expenses	$ 8,612,586	$ 3,547,293
Customer deposits for water service	2,909,584	4,066,170
Construction and developer deposits	1,794,095	1,726,157
Accrued interest payable	889,216	909,429
Long-term liabilities – due within one year:		
Compensated absences (Note 8)	296,182	405,890
Right-to-use lease payable (Note 7)	192,870	147,844
Direct finance purchase (Note 9)	496,349	479,423
Revenue bonds payable (Note 9)	2,957,458	2,899,916
Total OPEB liability (Note 10)	584,938	547,602
Total current liabilities	18,733,278	14,729,724
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 8)	888,547	1,217,670
Right-to-use lease payable (Note 7)	439,903	256,512
Direct finance purchase (Note 9)	513,873	1,010,222
Revenue bonds payable, net (Note 9)	93,786,454	96,846,619
Total OPEB liability (Note 10)	12,758,507	12,853,766
Net pension liability (Note 11)	13,012,026	15,049,931
Total non-current liabilities	121,399,310	127,234,720
Total liabilities	140,132,588	141,964,444
DEFERRED INFLOWS OF RESOURCES		
Unearned property taxes and assessments	-	4,800,000
Deferred amounts related to leases (Note 4)	389,642	230,288
Deferred amounts related to total OPEB liability (Note 10)	5,751,209	4,795,498
Deferred amounts related to net pension liability (Note 11)	1,873,770	273,549
Total deferred inflows of resources	8,014,621	10,099,335
NET POSITION		
Net investment in capital assets (Note 12)	145,542,786	126,964,416
Restricted – Palmdale Recycled Water Authority (Note 5)	2,040,182	2,255,347
Unrestricted (Deficit) (Note 13)	(1,852,190)	(9,075,033)
Total net position	145,730,778	120,144,730
Total liabilities, deferred inflows of resources and net position	$ 293,877,987	$ 272,208,509

PALMDALE WATER DISTRICT

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended December 31, 2025 and 2024

	2025	2024
Operating revenues:		
Water sales – commodity charge	$ 17,393,743	$ 14,619,161
Water sales – wholesale	558,357	273,056
Monthly meter service charge	22,901,707	20,340,155
Water quality fees	344,662	416,112
Elevation fees	316,305	382,474
Other charges for services	2,084,647	1,250,732
Total operating revenues	43,599,421	37,281,690
Operating expenses:		
Source of supply – water purchases	4,282,228	2,554,457
Operations and production	5,075,912	5,174,695
Facilities	7,487,548	7,732,070
Engineering	2,243,585	2,020,555
Water conservation	462,542	364,375
Administration	9,235,952	8,834,484
Finance and customer care	4,145,842	4,105,095
Total operating expenses	32,933,609	30,785,731
Operating income before overhead absorption	10,665,812	6,495,959
Overhead absorption	1,666,500	1,000,439
Operating income before depreciation expense	12,332,312	7,496,398
Depreciation expense (Note 6)	(6,006,204)	(5,748,358)
Operating income(loss)	6,326,108	1,748,040
Non-operating revenues(expenses):		
Property taxes – ad valorem	2,953,701	3,528,364
Property tax assessment for State Water Project	6,220,950	7,268,052
Successor agency component of property taxes	1,023,448	980,220
Rental revenue – cellular towers (Note 4)	180,653	274,193
Investment earnings	1,422,343	987,740
Changes in investment – Palmdale Recycled Water Authority (Note 5)	(215,165)	20,933
Department of Water Resources – fixed charge recovery	425,798	443,653
Other non-operating revenues	178,383	1,223,346
Cost of debt issuance (Note 9)	-	(292,810)
State Water Project amortization expense (Note 6)	(3,738,972)	(4,985,344)
Rate assistance program expense	(199,907)	(200,320)
Interest expense – long-term debt	(3,559,607)	(3,307,446)
Total non-operating revenue(expense), net	4,691,625	5,940,581
Net income before capital contributions	11,017,733	7,688,621
Capital contributions:		
Capital improvement fees	2,676,331	209,462
Federal and state capital grants	11,891,984	2,078,941
Total capital contributions	14,568,315	2,288,403
Change in net position	25,586,048	9,977,024
Net position:		
Beginning of year	120,144,730	110,167,706
End of year	$ 145,730,778	$ 120,144,730

PALMDALE WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Cash receipts from water sales and services	$ 42,403,397	$ 37,186,909
Cash receipts from others	(6,844,642)	1,427,562
Cash paid to employees for salaries and wages	(12,006,670)	(10,671,464)
Cash paid to vendors and suppliers for materials and services	(14,977,328)	(18,850,191)
Net cash provided by operating activities	8,574,757	9,092,816
Cash flows from non-capital financing activities:		
Proceeds from property taxes	4,905,882	3,128,526
Proceeds from property tax assessment for State Water Project	6,220,950	7,268,052
Acquisition of State Water Project participation rights	(6,074,733)	(7,267,924)
Net cash provided by non-capital financing activities	5,052,099	3,128,654
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(36,840,856)	(17,457,894)
Proceeds from capital improvement fees and capital grants	14,568,315	2,288,403
Proceeds from issuance of revenue refunding bonds	-	22,000,000
Proceeds from issuance of right-to-use asset financing	408,994	325,584
Cost of debt issuance	-	(292,810)
Principal paid on right-to-use lease payable	(180,577)	(149,868)
Principal paid on long-term debt	(3,209,791)	(1,134,740)
Interest paid on long-term debt	(3,579,820)	(3,088,246)
Net cash provided by (used in) capital and related financing activities	(28,833,735)	2,490,429
Cash flows from investing activities:		
Purchase of investments, net	2,643,294	2,893,644
Investment earnings	1,294,715	668,344
Net cash provided by investing activities	3,938,009	3,561,988
Net increase (decrease) in cash and cash equivalents	(11,268,870)	18,273,887
Cash and cash equivalents:		
Beginning of year	35,270,833	16,996,946
End of year	$ 24,001,963	$ 35,270,833

Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents	$ 14,144,918	$ 7,607,716
Restricted assets – cash and cash equivalents	9,857,045	27,663,117
Total cash and cash equivalents	$ 24,001,963	$ 35,270,833

PALMDALE WATER DISTRICT

Statements of Cash Flows (continued)

For the Years Ended December 31, 2025 and 2024

	2025	2024
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 6,326,108	$ 1,748,040
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,006,204	5,748,358
Overhead absorption	(1,666,500)	(1,000,439)
Rental revenue – cellular towers	180,653	274,193
Legal and insurance refunds/settlements	-	-
Department of Water Resources – fixed charge recovery	425,798	443,653
Other non-operating revenues	178,383	1,223,346
Change in assets – (increase)decrease:		
Accounts receivable – water sales and services, net	(107,376)	(330,808)
Lease receivable	(394,195)	(266,728)
Accounts receivable – other	(7,235,281)	(246,902)
Materials and supplies inventory	464,191	(24,625)
Prepaid expenses	(102,402)	(177,619)
Change in deferred outflows of resources – (increase)decrease		
Deferred amounts related to total OPEB liability	(846,274)	(807,501)
Deferred amounts related to net pension liability	957,888	1,515,807
Change in liabilities – increase(decrease):		
Accounts payable and accrued expenses	5,065,293	(47,665)
Customer deposits for water service	(1,156,586)	186,526
Construction and developer deposits	67,938	49,501
Compensated absences	(438,831)	93,763
Total OPEB liability	(57,923)	1,282,984
Net pension liability	(2,037,905)	(65,450)
Change in deferred inflows of resources – increase(decrease)		
Deferred amounts related to leases	389,642	230,288
Deferred amounts related to total OPEB liability	955,711	(456,973)
Deferred amounts related to net pension liability	1,600,221	(278,933)
Total adjustments	2,248,649	7,344,776
Net cash provided by operating activities	$ 8,574,757	$ 9,092,816

Non-cash investing, capital and financing transactions:	**2025**	**2024**
Change in fair-value of investments	$ 217,545	$ 273,356
Amortization of deferred amount on debt defeasance	$ (39,600)	$ (39,600)
Amortization of net premium(discount) on revenue bonds	$ 80,689	$ 80,689
Changes in investment – Palmdale Recycled Water Authority	$ (215,165)	$ 20,933

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.

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.

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. Prepaids

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:

Description	Estimated Lives
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.

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, 2025	June 30, 2024
Valuation Date	June 30, 2023	June 30, 2022
Measurement Date	June 30, 2024	June 30, 2023
Measurement Period	July 1, 2023 to June 30, 2024	July 1, 2022 to June 30, 2023

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, 2025	December 31, 2024
Valuation Date	December 31, 2024	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

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 generally limited to 1% of assessed valuation, resulting in a tax rate of $1.00 per $100 of assessed value under the provisions of Proposition 13. The County of Los Angeles bills and collects property taxes on behalf of the District. The County's property tax fiscal year is July 1 through June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments due on November 1 and February 1, becoming delinquent after December 10 and April 10, respectively.

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.

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

H. Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

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

Description	Balance, Dec. 31, 2025	Balance, Dec. 31, 2024
Cash and cash equivalents	$ 14,144,918	$ 7,607,716
Investments	10,287,061	11,442,432
Restricted – cash and cash equivalents	9,857,045	27,663,117
Total	$ 34,289,024	$ 46,713,265

Cash and investments consisted of the following:

Description	Balance, Dec. 31, 2025	Balance, Dec. 31, 2024
Cash on hand	$ 5,693	$ 5,700
Demand deposits held with financial institutions	4,959,889	1,983,142
Local Agency Investment Fund (LAIF)	14,359	13,736
Money-market funds	9,164,977	5,605,139
Money-market funds – restricted	9,857,045	27,663,116
Investments	10,287,061	11,442,432
Total	$ 34,289,024	$ 46,713,265

Demand Deposits with Financial Institutions

At December 31, 2025, and 2024, the carrying amount of the District's demand deposits were $4,959,889 and $1,983,142, respectively, and the financial institution's balance were $5,783,698 and $2,871,658, 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.

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits
Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The 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, 2025, the District held $9,164,977 in unrestricted money-market funds and $9,857,045 in restricted money-market funds. 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.

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, 2025, and 2024, the District held $14,359 and $13,736 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.

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments

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

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

Investment maturities and credit ratings as of December 31, 2025, 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	$ 9,286,499	$ 9,286,499
Certificates-of-deposit	Level 1	Not Rated	1,000,562	1,000,562
Total investments			$ 10,287,061	$ 10,287,061

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments (continued)

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			$ 11,442,432	$ 11,442,432

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, 2025, and 2024, 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, 2025, and 2024, 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, 2025, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Investments
U.S. Treasury Note - February 28, 2026	$ 2,629,506	25.56%
U.S. Treasury Note - March 31, 2026	1,639,143	15.93%
U.S. Treasury Note - April 30, 2026	584,596	5.68%
U.S. Treasury Note - May 31, 2026	988,490	9.61%
U.S. Treasury Note - August 31, 2025	2,945,130	28.63%
Total	$ 8,786,865	85.42%

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments (continued)

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	1,247,640	10.90%
U.S. Treasury Note - September 15, 2025	3,470,439	30.33%
Total	$ 6,707,999	58.62%

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

The balances consisted of the following;

Description	Balance, Dec. 31, 2025	Balance, Dec. 31, 2024
Accounts receivable – water sales and services	$ 3,134,966	$ 3,027,590
Allowance for doubtful accounts	(22,856)	(22,856)
Accounts receivable – water sales and services, net	$ 3,112,110	$ 3,004,734

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

Changes in the District's lease receivable for the year ended December 31, 2025 was as follows:

Description	Balance, Jan. 1, 2025	Additions	Deletions	Balance, Dec. 31, 2025
Cellular antenna site rental No. 1	$ 136,426	$ -	$ (122,439)	$ 13,987
Cellular antenna site rental No. 2	89,187	1,736	(44,536)	46,387
Cellular antenna site rental No. 3	41,115	3,933	(23,291)	21,757
Cellular antenna site rental No. 4	-	164,929	(10,310)	154,619
Cellular antenna site rental No. 5	-	174,106	(16,661)	157,445
	$ 266,728	$ 344,704	$ (217,237)	$ 394,195

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

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
	$ 380,463	$ -	$ (113,735)	$ 266,728

The District is reporting a total lease receivable of $394,195 and $266,728, as well as a total related deferred inflows of resources of $389,642 and $230,288 for the year ending June 30, 2025 and 2024, respectively. Also, the District is reporting total lease revenue of $137,460 and $115,143 and interest revenue of $468 and $6,589 related to payments received from the above three leases for the year ending June 30, 2025, and 2024, 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.

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. As of December 31, 2025, the lessee changed to Crown Castle. An initial lease receivable was recorded in the amount of $271,774. As of December 31, 2025, the value of the lease receivable was $13,987. 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 $14,662 as of December 31, 2025. The District recognized lease revenue of $44,663 and interest revenue of $63 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 VS-S1 (was originally 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, 2025, the value of the lease receivable was $46,387. 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 $42,825 as of December 31, 2025. The District recognized lease revenue of $42,825 and interest revenue of $118 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.

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

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, 2025, the value of the lease receivable was $21,757. 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 $21,525 as of December 31, 2025. The District recognized lease revenue of $21,291 and interest revenue of $58 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. 4

The District, on September 1, 2025, agreed a lease with Verizon, for 60 months as lessor for the use of a cellular antenna site rental. An initial lease receivable was recorded in the amount of $164,929. As of December 31, 2025, the value of the lease receivable was $154,619. The lease is required to make monthly fixed payments of $2,600 for the first 12-month period, then increase 3.0% on September 1st of each year. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was $153,934 as of December 31, 2025. The District recognized lease revenue of $11,270 and interest revenue of $89 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. 5

The District, on July 1, 2025, agreed a lease with Verizon, for 60 months as lessor for the use of a cellular antenna site rental. An initial lease receivable was recorded in the amount of $174,106. As of December 31, 2025, the value of the lease receivable was $157,445. The lease is required to make monthly fixed payments of $2,800 for the first 12-month period, then increase 2.0% on July 1st of each year. The lease has an interest rate of 2.00%. The value of the deferred inflow of resources was $156,695 as of December 31, 2025. The District recognized lease revenue of $17,411 and interest revenue of $139 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 five fiscal years are as follows:

Year	Principal	Interest	Total
2026	$ 147,108	$ 468	$ 147,576
2027	66,711	537	67,248
2028	68,489	249	68,738
2029	70,314	133	70,447
2030	41,573	23	41,596
Total	394,195	$ 1,410	$ 395,605
Less: current	(147,108)		
Total non-current	$ 247,087		

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, 2025 are as follows:

Description	Balance, Jan. 1, 2025	Additions	Deletions	Balance, Dec. 31, 2025
Cellular antenna site rental No. 1	$ 108,710	$ -	$ (94,048)	$ 14,662
Cellular antenna site rental No. 2	81,663	3,987	(42,825)	42,825
Cellular antenna site rental No. 3	39,915	3,137	(21,526)	21,526
Cellular antenna site rental No. 4	-	164,929	(10,995)	153,934
Cellular antenna site rental No. 5	-	174,106	(17,411)	156,695
	$ 230,288	$ 346,159	$ (186,805)	$ 389,642

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
	$ 345,431	$ -	$ (115,143)	$ 230,288

The amounts reported as deferred inflows of resources related to leases for the year ended December 31, 2025, will be amortized in future periods as follows:

Amortization Period Fiscal Year Ended Dec. 31, 2025	Deferred Inflows of Resources
2026	$ 146,819
2027	67,807
2028	67,807
2029	67,807
2030	39,402
Total	$ 389,642

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 $42,726 in lease revenue during the fiscal year.

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 2025, the District reports its equity interest as of the date of the last audited financial statements of the Authority as of December 31, 2025, which was audited by our firm, whose report dated July 20, 2026, expressed an unmodified opinion on those financial statements.

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.

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, 2025:

Palmdale Recycled Water Authority
Condensed Balance Sheet
December 31, 2025

	Audited Total	City of Palmdale 50% Share	District 50% Share
Assets:			
Total assets	$ 4,130,968	$ 2,065,484	$ 2,065,484
Liabilities:			
Total liabilities	50,604	25,302	25,302
Net position:			
Total net position	4,080,364	2,040,182	2,040,182
Total liabilities and net position	$ 4,130,968	$ 2,065,484	$ 2,065,484

Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2025

	Audited Total	City of Palmdale 50% Share	District 50% Share
Operating revenues:			
Total operating revenues	$ 87,406	$ 43,703	$ 43,703
Operating expenses:			
Total operating expenses	107,216	53,608	53,608
Operating income	(19,810)	(9,905)	(9,905)
Non-operating revenues(expenses):			
Total non-operating revenue, net	(410,520)	(205,260)	(205,260)
Change in net position	(430,330)	(215,165)	(215,165)
Net position:			
Beginning of year	4,510,694	2,255,347	2,255,347
End of year	$ 4,080,364	$ 2,040,182	$ 2,040,182

Condensed Statement of Cash Flows
For the Year Ended December 31, 2025

	Audited Total	City of Palmdale 50% Share	District 50% Share
Cash flows from operating activities:			
Net cash used in operating activities	$ (463,086)	$ (231,543)	$ (231,543)
Cash flows from investing activities:			
Net cash used in investing activities	1,550,523	775,262	775,262
Net increase in cash and cash equivalents	1,087,437	543,719	543,719
Cash and cash equivalents:			
Beginning of year	1,110,393	555,197	555,197
End of year	$ 2,197,830	$ 1,098,915	$ 1,098,915
Reconciliation of operating income to net cash provided by operating activities:			
Operating loss	$ (19,810)	$ (9,905)	$ (9,905)
Depreciation	53,407	26,704	26,704
Construction service costs	(513,147)	(256,574)	(256,574)
Change in assets	(2,096)	(1,048)	(1,048)
Change in liabilities	18,560	9,280	9,280
Net cash provided by operating activities	$ (463,086)	$ (231,543)	$ (231,543)

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:

Palmdale Recycled Water Authority
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)

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended December 31, 2025, was as follows:

Description	Balance, Jan. 1, 2025	Additions	Deletions/ Transfers	Balance, Dec. 31, 2025
Non-depreciable assets:				
Land and land rights	$ 2,978,261	$ -	$ -	$ 2,978,261
Water rights – Armagosa Creek	2,127,355	-	-	2,127,355
Construction-in-process	29,755,121	36,755,761	(8,820,976)	57,689,906
Total non-depreciable assets	34,860,737	36,755,761	(8,820,976)	62,795,522
Depreciable assets:				
Buildings, wells and distribution system	255,191,883	8,062,008	1,429	263,255,320
SWP – participation rights	115,824,097	6,074,733	-	121,898,830
Machinery and equipment	11,874,664	436,864	(1,429)	12,310,099
Lease assets:				
Vehicle fleet	876,603	407,199	(72,332)	1,211,470
Total depreciable assets	383,767,247	14,980,804	(72,332)	398,675,719
Accumulated depreciation:				
Buildings, wells and distribution system	(152,702,703)	(5,428,517)	(5,782,250)	(163,913,470)
SWP – participation rights	(55,182,518)	(3,738,972)	-	(58,921,490)
Machinery and equipment	(10,468,526)	(393,538)	5,782,250	(5,079,814)
Lease assets:				
Vehicle fleet	(470,902)	(184,149)	72,332	(582,719)
Total accumulated depreciation	(218,824,649)	(9,745,176)	72,332	(228,497,493)
Total depreciable assets, net	164,942,598	5,235,628	-	170,178,226
Total capital assets, net	$ 199,803,335	$ 41,991,389	$ (8,820,976)	$ 232,973,748

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION (continued)

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

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION (continued)

Construction-In-Process

The balance consists of the following projects:

Project Description	Balance Dec. 31, 2023	Balance Dec. 31, 2024	Balance Dec. 31, 2025
Palmdale Regional Groundwater Recharge Project	$ 4,209,279	$ 4,209,279	$ 4,209,279
2950 Zone Booster @3M Clearwell	595,224	3,451,123	5,708,566
45th St Tank Site - Altitude Valve Replacement	100,598	100,598	-
Well 36 - Construction	2,998,268	4,381,544	7,793,807
2022 Large Meter/Vault Replacement Program	190,023	-	-
Pure Water AV - Design (Demonstration)	2,271,581	3,325,206	-
Pure Water AV - Planning	787,009	1,077,556	-
NaOCL Replacement System - WTP	1,289,064	-	-
2015 Kenworth T370 Crane	133,419	133,419	133,419
Ditch Conversion	601,106	3,423,563	13,428,602
Design & Construction Recycling Water Pipline	121,131	1,270,806	2,685,683
Well 15 - Discharge Basin	236,186	-	-
50-PPD Sodium Hypo Units	137,620	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	212,718
Funding App - Pure Water AV	387,095	732,546	819,453
AMI Meter System	15,000	143,300	143,300
Water Conservation Garden	43,850	281,499	281,692
Design & Construction Water Main at 10th street	31,152	182,464	184,090
Boardroom Audio Visual Upgrade	76,735	143,963	143,963
Public Outreach - Pure Water AV	94,069	194,789	205,428
Design & Construction Rehab Clearwell 6m	83,540	201,951	215,220
2024 AMR System Upgrade	23,773	215,281	215,281
Well 11 Engine Overhall	-	125,592	144,578
2024 Meter Exchange Program	-	1,163,684	-
2024 Large Mtr/Vault Replacement Program	-	238,491	277,743
Pure Water AV - Design (Full Scale)	-	123,190	625,195
Construction - Facility Department	-	2,587,290	14,935,059
LRD - Interior Access Ladder	-	-	109,075
Design & Construction 26-27 Ave R	-	-	536,067
Well 15 Pump Removal	-	-	253,883
2025 Well 11 Engine Overhaul	-	-	278,432
2025 Meter Exchange Program	-	-	1,386,252
Well 8 Motor Rebuild	-	-	100,697
Design & Construction SCADA Radio & Network	-	-	589,255
Wach Valve Turning System Skid	-	-	133,866
Various other minor projects <$100,000	964,510	1,697,649	1,801,683
Total construction-in-process	$ 17,727,777	$ 29,755,121	$ 57,689,906

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 marked to various utilities and California's power market.

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

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

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

NOTE 7 – RIGHT-TO-USE LEASE ASSET AND RIGHT-TO-USE LEASE PAYABLE

Changes in right-to-use lease payable for fiscal year ending December 31, 2025 was as follows:

Balance, Jan. 1, 2025	Additions	Deletions	Balance, Dec. 31, 2025	Due Within One Year	Due in More Than One Year
$ 404,356	$ 408,994	$ (180,577)	$ 632,773	$ 192,870	$ 439,903

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

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

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

Fiscal Year	Principal	Interest	Total
2026	$ 192,870	$ 10,757	$ 203,627
2027	143,374	7,448	150,822
2028	135,045	4,697	139,742
2029	116,261	2,056	118,317
2030	45,223	367	45,590
Total	632,773	$ 25,325	$ 658,098
Less: current	(192,870)		
Total non-current	$ 439,903		

The District is reporting a total right-to-use lease asset, net of $628,751 and a right-to-use lease payable of $632,773 for the year ending December 31, 2025. Also, the District is reporting total depreciation expense of $184,149 related to the fleet lease, principal payments of $180,577 and interest expense of $10,395 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. 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 $1,211,470 at $20,191 per month. As of December 31, 2025, the District had 33 leased fleet vehicles.

NOTE 8 – COMPENSATED ABSENCES

As of December 31, 2025, the total liability for compensated absences was $1,184,729, of which $296,182 is expected to be paid within one year and is reported as a current liability.

Summary changes to compensated absences balances for the year ended December 31, 2025, were as follows:

Balance, Jan. 1, 2025	Net Change	Balance, Dec. 31, 2025	Due Within One Year	Due in More Than One Year
$ 1,623,560	$ (438,831)	$ 1,184,729	$ 296,182	$ 888,547

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

Balance, Jan. 1, 2024	Net Change	Balance, Dec. 31, 2024	Due Within One Year	Due in More Than One Year
$ 1,529,797	$ 93,763	$ 1,623,560	$ 405,890	$ 1,217,670

NOTE 9 – LONG-TERM DEBT

Changes in long-term debt for the year ended December 31, 2025, were as follows:

Long-Term Debt	Balance, Jan. 1, 2025	Additions/ Adjustments	Payments/ Amortization	Balance, Dec. 31, 2025	Current Portion	Non-Current Portion
Direct finance purchase – 2022	1,489,645	-	(479,422)	1,010,223	496,349	513,874
Revenue bonds payable - 2018	12,015,000	-	(290,000)	11,725,000	305,000	11,420,000
Revenue bonds payable - premium	879,835	-	(37,046)	842,789	-	842,789
Revenue bonds payable, net - 2018	12,894,835	-	(327,046)	12,567,789	305,000	12,262,789
Revenue refunding bonds - non-taxable - 2020	8,925,578	-	(14,229)	8,911,349	14,698	8,896,651
Revenue refunding bonds - taxable - 2020	13,855,000	-	(170,000)	13,685,000	170,000	13,515,000
Revenue refunding bonds - 2020	22,780,578	-	(184,229)	22,596,349	184,698	22,411,651
Revenue bonds - 2021A	9,390,000	-	-	9,390,000	-	9,390,000
Revenue refunding bonds - 2021	9,933,930	-	(2,426,140)	7,507,790	2,467,760	5,040,030
Revenue bonds payable - premium	777,392	-	(29,244)	748,148	-	748,148
Revenue bonds payable, net - 2021	20,101,322	-	(2,455,384)	17,645,938	2,467,760	15,178,178
Revenue bonds - 2023A	21,225,000	-	-	21,225,000	-	21,225,000
Revenue bonds payable - premium	414,000	-	(14,400)	399,600	-	399,600
Revenue bonds payable, net - 2023	21,639,000	-	(14,400)	21,624,600	-	21,624,600
Revenue bonds - 2024	21,700,000	-	-	21,700,000	-	21,700,000
Revenue bonds payable - premium	630,800	-	(21,565)	609,235	-	609,235
Revenue bonds payable, net - 2024	22,330,800	-	(21,565)	22,309,235	-	22,309,235
Total long-term debt	$ 101,236,180	$ -	$ (3,482,046)	$ 97,754,134	$ 3,453,807	$ 94,300,327

NOTE 9 – LONG-TERM DEBT (continued)

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

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 2024 until October 2027 at an annual interest rate of 3.50%. The balance of the direct finance purchase was $1,010,223 as of December 31, 2025.

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

Year	Principal	Interest	Total
2026	$ 496,349	$ 31,052	$ 527,401
2027	513,874	13,528	527,402
Total	1,010,223	$ 44,580	$ 1,054,803
Less: current	(496,349)		
Total non-current	$ 513,874		

NOTE 9 – LONG-TERM DEBT (continued)

B. Revenue Bonds Payable

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
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	370,000	452,043	822,043
2031-2035	2,115,000	1,988,107	4,103,107
2036-2040	2,520,000	1,581,975	4,101,975
2041-2045	3,150,000	946,625	4,096,625
2046-2048	2,260,000	201,750	2,461,750
Total	11,725,000	$ 7,146,176	$ 18,871,176
Less: current	(305,000)		
Total non-current	$ 11,420,000		

NOTE 9 – LONG-TERM DEBT (continued)

B. 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:

Year	Principal	Interest	Total
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	16,729	291,152	307,881
2031-2035	922,273	1,447,132	2,369,405
2036-2040	4,700,986	1,002,217	5,703,203
2041-2043	3,209,605	213,437	3,423,042
Total	8,911,349	$ 4,123,706	$ 13,035,055
Less: current	(14,698)		
Total non-current	$ 8,896,651		

NOTE 9 – LONG-TERM DEBT (continued)

B. 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 net present value benefit to the District of $784,897 in interest savings from the refunding. Annual debt service requirements for the revenue refunding bonds payable are as follows:

Year	Principal	Interest	Total
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	185,000	366,851	551,851
2031-2034	12,795,000	932,539	13,727,539
Total	13,685,000	$ 2,806,929	$ 16,491,929
Less: current	(170,000)		
Total non-current	$ 13,515,000		

NOTE 9 – LONG-TERM DEBT (continued)

B. 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
2026	$ -	$ 299,725	$ 299,725
2027	-	299,725	299,725
2028	-	299,725	299,725
2029	-	299,725	299,725
2030	-	299,725	299,725
2031-2035	415,000	1,498,625	1,913,625
2036-2040	2,330,000	1,244,313	3,574,313
2041-2045	2,715,000	861,475	3,576,475
2046-2050	3,235,000	343,025	3,578,025
2051	695,000	17,375	712,375
Total	9,390,000	$ 5,463,438	$ 14,853,438
Less: current	-		
Total non-current	$ 9,390,000		

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 net present value benefit to the District of $719,502 in interest savings from the refunding.

NOTE 9 – LONG-TERM DEBT (continued)

B. Revenue Bonds Payable (continued)

Revenue Refunding Bonds – Series 2021 (continued)
Annual debt service requirements for the revenue refunding bonds payable are as follows:

Year	Principal	Interest	Total
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	7,507,790	$ 202,138	$ 7,709,928
Less: current	(2,467,760)		
Total non-current	$ 5,040,030		

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 2024 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.

NOTE 9 – LONG-TERM DEBT (continued)

B. Revenue Bonds Payable (continued)

Revenue Refunding Bonds – 2023 (continued)

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

Year	Principal	Interest	Total
2026	$ -	$ 984,075	$ 984,075
2027	-	984,075	984,075
2028	-	984,075	984,075
2029	-	984,075	984,075
2030	-	984,075	984,075
2031-2035	-	4,920,375	4,920,375
2036-2040	-	4,920,375	4,920,375
2041-2045	-	4,920,375	4,920,375
2046-2050	8,820,000	4,599,863	13,419,863
2051-2053	12,405,000	1,295,750	13,700,750
Total	21,225,000	$ 25,577,113	$ 46,802,113
Less: current	-		
Total non-current	$ 21,225,000		

Deferred Amount on Debt Defeasance, Net

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2025, are as follows:

Description	Balance, Jan. 1, 2025	Additions	Amortization	Balance, Dec. 31, 2025
Deferred amount on debt defeasance, net	$ 1,138,500	$ -	$ (39,600)	$ 1,098,900

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

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

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:

Year	Principal	Interest	Total
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	1,335,000	942,200	2,277,200
2031-2035	710,000	4,058,500	4,768,500
2036-2040	4,100,000	3,490,250	7,590,250
2041-2045	7,460,000	2,416,200	9,876,200
2046-2050	5,780,000	649,000	6,429,000
2051-2053	1,040,000	84,200	1,124,200
Total	21,700,000	$ 15,409,150	$ 37,109,150
Less: current	-		
Total non-current	$ 21,700,000		

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

Description	2025	2024
OPEB related deferred outflows	$ 4,131,759	$ 3,285,485
Total OPEB liability – current	584,938	547,602
Total OPEB liability – non-current	12,758,507	12,853,766
Total OPEB liability	13,343,445	13,401,368
OPEB related deferred inflows	5,751,209	4,795,498

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:

	Partcipants
Benefit types provided	Medical, dental and vision
Durantion 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 $2,332 cap
District cap on coverage	$2,332

Employees covered by benefit terms
At December 31, 2025 and 2024, the following employees were covered by the benefit terms:

	Covered Participants	
Plan Members	2025	2024
Active members	84	89
Inactives entitled to but not yet receiving benefits	-	-
Inactives currently receiving benefits	33	30
Total plan members	117	119

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

A. Total OPEB Liability

The District's total OPEB liabilities of $13,343,445 and $13,401,368 as of December 31, 2025, and 2024, respectively, were measured as of December 31, 2024, and 2023 (Measurement Dates), and were determined by an actuarial valuation as of December 31, 2024, and December 31, 2022, respectively.

Actuarial assumptions and other inputs

The total OPEB liability in the December 31, 2024, and 2023 (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:

	2025	2024
Discount Rate	4.08%	3.26%
Inflation	2.50%	2.50%
Salary Increases	2.75% per annum, in aggregate	2.75% per annum, in aggregate
Mortality Rate	CalPERS Membership Data	CalPERS Membership Data
Pre-Retirement Turnover	CalPERS Membership Data	CalPERS Membership Data
Healthcare Trend Rate	Non-Medicare 7.35% to Medicare 6.5%	Non-Medicare 8.5% to Medicare 7.5%

Mortality, Retirement & Turnover Assumptions

The mortality assumptions are based on the 2023 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 4.08% as of December 31, 2024 and 3.26% as of December 31, 2023. 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, 2024 (Measurement Date) actuarial valuation:

	Total OPEB Liability
Balance at January 1, 2025 (MD Jan. 1, 2024)	$ 13,401,368
Changes for the year:	
Service cost	535,488
Interest	445,279
Assumption changes	(2,129,329)
Changes of benefit terms	20,850
Actual vs expected experience	1,625,810
Benefit payments	(556,021)
Net changes	(57,923)
Balance at December 31, 2025 (MD Dec. 31, 2024)	$ 13,343,445

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

B. Changes in the Total OPEB Liability (continued)

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
Benefit payments	(464,791)
Net changes	1,282,984
Balance at December 31, 2024 (MD Dec. 31, 2023)	$ 13,401,368

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, 2024 (Measurement Date) actuarial valuation:

1% Decrease 3.08%	Discount Rate 4.08%	1% Increase 5.08%
$ 15,305,255	$ 12,758,507	$ 11,728,384

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

1% Decrease 2.26%	Discount Rate 3.26%	1% Increase 4.26%
$ 15,484,746	$ 12,853,766	$ 11,694,308

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (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, 2024 (Measurement Date) actuarial valuation:

1% Decrease	Healthcare Cost Current Trend	1% Increase
$ 11,511,025	$ 12,758,507	$ 15,655,084

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

1% Decrease	Healthcare Cost Current Trend	1% Increase
$ 11,301,659	$ 12,853,766	$ 16,098,754

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

For the year ended December 31, 2025, and 2024, the District recognized OPEB expense/(credit) of $599,116 and $574,531, respectively.

At December 31, 2025, the District reported $4,131,759 of deferred outflows of resources and $5,751,209 of deferred inflows of resources for related to the total OPEB liability as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date of the net OPEB liability	$ 547,602	$ -
Changes in assumptions	1,777,472	(3,619,162)
Differences between expected and actual experience	1,806,685	(2,132,047)
Total	$ 4,131,759	$ (5,751,209)

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

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

At December 31, 2025, the District reported $547,602 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 total OPEB liability is as follows:

	Amount
Year Ended June 30:	
2026	$ (418,302)
2027	(451,048)
2028	(393,688)
2029	(599,395)
2030	(130,840)
Thereafter	(173,779)
Total	$ (2,167,052)

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 total OPEB liability as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date of the net OPEB liability	$ 556,021	$ -
Changes in assumptions	2,308,677	(2,116,772)
Differences between expected and actual experience	420,787	(2,678,726)
Total	$ 3,285,485	$ (4,795,498)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (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 total OPEB liability is as follows:

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

NOTE 11 – PENSION PLAN

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

Description	2025	2024
Pension related deferred outflows	$ 2,874,339	$ 3,832,227
Net pension liability	13,012,026	15,049,931
Pension related deferred inflows	1,873,770	273,549

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, 2025 and June 30, 2024, respectively, which are rolled-forward for the District's fiscal years ended December 31, 2025 and December 31, 2024.

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
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required member contribution rates	7.000%	7.750%
Required employer contribution rates – FY 2025	12.470%	7.680%
Required employer contribution rates – FY 2024	10.870%	7.470%

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, 2024 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, 2025 and 2024 Annual Actuarial Valuation Reports.

At June 30, 2025, the following members were covered by the benefit terms:

	Miscellaneous Plans		
Plan Members	**Classic Tier 1**	**PEPRA Tier 2**	**Total**
Active members	38	45	83
Transferred and terminated members	41	24	65
Retired members and beneficiaries	76	2	78
Total plan members	155	71	226

NOTE 11 – PENSION PLAN (continued)

A. General Information about the Pension Plan (continued)

Plan Description, Benefits Provided and Employees Covered (continued)
At June 30, 2024, the following members were covered by the benefit terms:

	Miscellaneous Plans		
Plan Members	Classic Tier 1	PEPRA Tier 2	Total
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

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, 2025, (Measurement Date June 30, 2025) were as follows:

Contribution Type	Total
Contributions – employer	$ 2,139,704

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

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

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, 2025, and 2024, the contributions recognized as part of pension expense for the Plan were $2,139,704 and $1,912,883.

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, 2025, were as follows:

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2024 (Measurement Date)	$ 66,426,067	$ 51,376,136	$ 15,049,931
Balance as of June 30, 2025 (Measurement Date)	$ 70,650,253	$ 57,638,227	$ 13,012,026
Change in Plan Net Pension Liability	$ 4,224,186	$ 6,262,091	$ (2,037,905)

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

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
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)

For the year ended December 31, 2025, and 2024 pension expenses were $1,707,821 and $2,205,355, 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, 2024 and 2023). 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, 2025 and 2024). 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, 2025 and 2024 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY 2024-2025 and FY 2023-2024).

(3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.

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, 2025 and 2024, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of $13,012,026 and $15,049,931, 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, 2024 and 2023, 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, 2023 and 2022 rolled forward to December 31, 2024 and 2023 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, 2025, measurement date was as follows:

	Percentage Share of Risk Pool		
	Fiscal Year Ending December 31, 2025	Fiscal Year Ending December 31, 2024	Change Increase/ (Decrease)
Measurement Date	June 30, 2025	June 30, 2024	
Percentage of Risk Pool Net Pension Liability	0.32618%	0.31117%	0.01501%
Percentage of Plan (PERF C) Net Pension Liability	0.12720%	0.12410%	0.00310%

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%

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 $1,187,617 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, 2026. At December 31, 2025, 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	$ 1,187,617	$ -
Difference between actual and proportionate share of employer contributions	-	(103,051)
Adjustment due to differences in proportions	127,569	(10,049)
Differences between expected and actual experience	1,559,153	-
Differences between projected and actual earnings on pension plan investments	-	(1,760,670)
Changes in assumptions	-	-
Total Deferred Outflows/(Inflows) of Resources	$ 2,874,339	$ (1,873,770)

The total amount of $1,033,933 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, 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)

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, 2025, will be amortized to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended December 31	Deferred Outflows/(Inflows) of Resources
2026	$ 1,644,509
2027	(379,719)
2028	(779,718)
2029	(672,120)
Total	$ (187,048)

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

Actuarial Methods and Assumptions Used to Determine Total Pension Liability
For the measurement period ending June 30, 2025 and 2024 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2024 and 2023, total pension liability. The December 31, 2025 and 2024, 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

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 Allocation	Real Return[1,2]
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, 2025, was as follows:

	Plan's Net Pension Liability/(Asset)		
Plan Type	Discount Rate - 1% 5.90%	Current Discount Rate 6.90%	Discount Rate + 1% 7.90%
CalPERS – Miscellaneous Plan	$ 22,546,117	$ 13,012,026	$ 5,165,569

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, 2024, was as follows:

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

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, 2025, and 2024, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the year ended December 31, 2025, and 2024.

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, 2025, and 2024 were calculated as follows:

Description	**Balance Dec. 31, 2025**	**Balance Dec. 31, 2024**
Restricted – cash and cash equivalents		
– revenue bond proceeds for construction	$ 9,857,045	$ 27,663,117
Capital assets – not being depreciated	62,795,522	34,860,737
Capital assets, net – being depreciated	170,178,226	164,942,598
Deferred loss on debt defeasance, net	1,098,900	1,138,500
Right-to-use lease payable – current	(192,870)	(147,844)
Direct finance purchase – current	(496,349)	(479,423)
Revenue bonds payable – current	(2,957,458)	(2,899,916)
Right-to-use lease payable	(439,903)	(256,512)
Direct finance purchase	(513,873)	(1,010,222)
Revenue bonds payable, net	(93,786,454)	(96,846,619)
Total net investment in capital assets	$ 145,542,786	$ 126,964,416

NOTE 13 – NET POSITION – UNRESTRICTED (DEFICIT)

As of December 31, 2025, and 2024, the District had an unrestricted net position deficit of ($1,852,190) and ($9,075,033). 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 total OPEB liability funding requirements for future periods to reduce its deficit position.

NOTE 14 – 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, 2025 – 401 member districts
D.	**Governing board**	Nine representatives employed by members
E.	**District payments for FY 2025:**	$605,005
F.	**Condensed financial information**	September 30, 2025
	Audit signed	March 26, 2026

Statement of financial position:	**Sept. 30, 2025**
Total assets	$ 317,463,759
Deferred outflows	2,865,947
Total liabilities	192,995,110
Deferred inflows	4,012,555
Net position	$ 123,322,041
Statement of revenues, expenses and changes in net position:	
Total revenues	$ 251,873,927
Total expenses	(257,731,611)
Change in net position	(5,857,684)
Beginning – net position	129,179,725
Ending – net position	$ 123,322,041

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, 2025, and 2024, 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:

NOTE 14 – 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, 2025, 2024, and 2023. 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, 2025, 2024, and 2023.

NOTE 15 – 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 16 – RISK DISCLOSURE: CONCENTRATION OF REVENUE SOURCE (GASB STATEMENT NO. 102)

The District is subject to systematic risk due to receiving over 25.44% of its total revenue from water sales. Excluding capital improvement fees and capital grants, water sales account for 32.18% of total revenues. 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.

NOTE 17 – 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:

Fiscal Year	Amount
2026	$9,013,626
2027	9,045,633
2028	9,163,408
2029	9,174,658
2030	8,978,804

As of December 31, 2025, the District has expended approximately $150,083,683 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:

Type of Long-Term Obligation	Amount
State Water Project Contract:	
Transportation facilities	$69,049,714
Delta water charges	19,708,920
Revenue bond surcharge	3,334,796
Total	$92,093,430

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.

NOTE 17 – 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 $34,713,115 to complete the open construction contracts as of December 31, 2025. These include the following:

Project Description	Cost of Project to Date	Estimated Costs to Complete	Total Expected Project Cost
Pure water AV	$ 11,856,336	$ 13,943,089	$ 25,799,425
Ditch Conversion Project	13,428,602	4,428,690	17,857,292
Palmdale regional water augmentation program	2,749,028	8,196,627	10,945,655
3M booster station	4,465,105	2,623,846	7,088,951
Total	$ 32,499,071	$ 29,192,252	$ 61,691,323

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, d*e 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 18 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through July 27, 2026, 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, 2025 and 2024

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, 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%
June 30, 2025	0.12720%	13,012,026	9,598,238	135.57%	81.58%

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, 2025:
There were no significant changes in assumptions.

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
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%
2025	2,293,388	(2,293,388)	-	10,604,956	21.63%

Notes to Schedule:

Measurement Date	Valuation Date	Actuarial Cost Method	Asset Valuation Method	Inflation	Investment Rate of Return
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%
June 30, 2025	June 30, 2024	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 most recent CalPERS Experience Study adopted by the CalPERS Board.

PALMDALE WATER DISTRICT

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

For the Years Ended December 31, 2025 and 2024

Last Ten Fiscal Years*

Fiscal Year Ended	**Dec. 31, 2025**	**Dec. 31, 2024**	**Dec. 31, 2023**	**Dec. 31, 2022**	**Dec. 31, 2021**
Measurement Date	**Dec. 31, 2024**	**Dec. 31, 2023**	**Dec. 31, 2022**	**Dec. 31, 2021**	**Dec. 31, 2020**
Total OPEB liability:					
Service cost	$ 535,488	$ 461,750	$ 622,927	$ 596,605	$ 677,977
Interest	445,279	459,336	281,830	278,018	464,926
Changes of assumptions	(2,129,329)	826,689	(2,166,653)	117,793	231,952
Differences between expected and actual experience	1,625,810	-	539,319	-	(4,865,442)
Changes of benefit terms	20,850	-	-	-	142,064
Benefit payments	(556,021)	(464,791)	(434,424)	(468,905)	(379,410)
Net change in total OPEB liability	(57,923)	1,282,984	(1,157,001)	523,511	(3,727,933)
Total OPEB liability - beginning	13,401,368	12,118,384	13,275,385	12,751,874	16,479,807
Total OPEB liability - ending	$ 13,343,445	$ 13,401,368	$ 12,118,384	$ 13,275,385	$ 12,751,874
Covered-employee payroll	$ 11,137,075	$ 9,506,402	$ 9,107,356	$ 9,492,550	$ 8,522,694
District's total OPEB liability as a percentage of covered-employee payroll	119.81%	140.97%	133.06%	139.85%	149.62%

Notes to Schedule:

Benefit Changes:

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
Measurement Date December 31, 2024 – There were no changes in benefits

Changes in Assumptions:

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
Measurement Date December 31, 2024 – Discount rate was updated to 4.08% from 3.26% as of December 31, 2023

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

PALMDALE WATER DISTRICT

Schedule of Changes in the District's Total OPEB Liability and Related Ratios (continued)
For the Years Ended December 31, 2025 and 2024

Last Ten Fiscal Years*

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

Notes to Schedule:

Benefit Changes:

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

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

Measurement Date December 31, 2019 – There were no changes in benefits

Changes in Assumptions:

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

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

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

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

PALMDALE WATER DISTRICT
Schedule of OPEB Contributions
For the Years Ended December 31, 2025 and 2024

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, 2025	Dec. 31, 2024	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021
Contributions made	$ 430,951	$ 417,337	$ 359,711	$ 345,386	$ 381,892
Implied subsidy	116,651	138,684	105,080	89,038	87,013
Total contributions	$ 547,602	$ 556,021	$ 464,791	$ 434,424	$ 468,905

Notes to Schedule:

Valuation Date	Dec. 31, 2024	Dec. 31, 2022	Dec. 31, 2022	Dec. 31, 2020	Dec. 31, 2019
Methods and Assumptions Used to Determine Contribution Rates:					
Discount rate	4.08%	3.26%	3.72%	2.12%	2.12%
Inflation	2.50%	2.50%	2.50%	2.50%	2.50%
Payroll increases	2.75%	2.75%	2.75%	2.75%	2.75%
Mortality	1	1	1	1	1
Disability	1	1	1	1	1
Retirement	1	1	1	1	1
Termination	1	1	1	1	1
Healthcare trend rates	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 eight years are shown.

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, 2020**	**Dec. 31, 2019**	**Dec. 31, 2018**
Contributions made	$ 305,410	$ 245,893	$ 240,695
Implied subsidy	74,000	77,037	66,496
Total contributions	$ 379,410	$ 322,930	$ 307,191

Notes to Schedule:

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

(1) CalPERS 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 eight years are shown.

Supplementary Information

PALMDALE WATER DISTRICT
Schedules of Debt Service Net Revenues Coverage
For the Year Ended December 31, 2025 and 2024

Total revenues:	**2025**	**2024**
Operating revenues	$ 43,599,421	$ 37,281,690
Non-operating revenues	12,190,111	14,726,501
Capital contributions – capital improvement fees and grants	14,568,315	2,288,403
Total revenues	70,357,847	54,296,594
Total expenses:		
Operating expenses before depreciation expense	32,933,609	30,785,731
Non-operating expenses	7,298,579	8,585,600
Less debt service items:		
Interest expense – long-term debt	(3,559,607)	(3,307,446)
Total non-operating expenses adjusted for debt service items	3,738,972	5,278,154
	36,672,581	36,063,885
Net revenues available for debt service	$ 33,685,266	$ 18,232,709
Debt service for the fiscal year	$ 4,817,837	$ 4,326,263
Debt service net revenues coverage ratio	699%	421%

Other Independent Auditors' Reports

A Professional Accountancy Corporation

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

Board of Directors
Palmdale 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, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 27, 2026.

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.

Jeff Nigro, CPA, CFE | Shannon Bishop, CPA | Peter Glenn, CPA, CFE | Paul J. Kaymark, CPA | Jessica Berry, CPA | Angelika Vartikyan, CPA | Jared Solmonsen, CPA

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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.

Nigro & Nigro, PC

Murrieta, California
July 27, 2026