PALMDALE WATER DISTRICT

ANNUAL FINANCIAL REPORT

For the Years Ended
December 31, 2018 and 2017

PALMDALE WATER DISTRICT
For the Years Ended December 31, 2018 and 2017
Table of Contents

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

OTHER INDEPENDENT AUDITORS' REPORTS

Financial Section

INDEPENDENT AUDITORS' REPORT

Board of Directors
Palmdale Water District
Palmdale, California

Report on the Financial Statements
We have audited the accompanying basic financial statements of Palmdale Water District, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

Opinion
In our opinion, the December 31, 2018 and 2017 basic financial statements referred to above present fairly, in all material respects, the financial position of Palmdale Water District as of December 31, 2018 and 2017, 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.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Peter Glenn, CPA | Paul J. Kaymark, CPA | Michael Klein, CPA, CMA, EA

MURRIETA OFFICE 25220 Hancock Avenue, Suite 400, Murrieta, CA 92562 • P: (951) 698-8783 • F: (951) 699-1064
OAKLAND OFFICE 333 Hegenberger Road, Suite 388, Oakland, CA 94621 • P: (844) 557-3111 • F: (844) 557-3444

www.nncpas.com • Licensed by the California Board of Accountancy

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 10, schedule of proportionate share of the net pension liability on page 50, schedule of pension contributions on page 51, schedule of changes in the District's total OPEB liability and related ratios on page 52, and schedule of OPEB contributions on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information on page 55 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued a separate report dated June 27, 2019, 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 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
June 27, 2019

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, 2018 and 2017. 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 2018, the District's net position increased 0.83% or $790,694 from the prior year's net position of $94,917,603 to $95,708,297, as a result of this year's operations due to a change in net position from operations of ($1,524,354) and a $2,315,048 prior period adjustment for the implementation of GASB No. 75.

- In 2017, the District's net position decreased (1.15%) or ($1,100,559) from the prior year's net position of $96,018,162 to $94,917,603, as a result of this year's operations.

- In 2018, the District's operating revenues increased by 5.03% or $1,190,983 from $23,693,095 to $24,884,078, from the prior year, primarily due to an increase in water sales – commodity charge of $579,682 and monthly meter service charge of $584,268.

- In 2017, the District's operating revenues increased by 4.9% or $1,106,294 from $22,586,801 to $23,693,095, from the prior year, primarily due to an increase in water sales – commodity charge of $286,110 and monthly meter service charge of $533,324.

- In 2018, the District's operating expenses before overhead absorption and depreciation expense increased by 6.00% or $1,382,330 from $23,053,505 to $24,435,835, from the prior year, primarily due to an increase in operations and production costs along with an increase in facilities expense.

- In 2017, the District's operating expenses before overhead absorption and depreciation expense increased by 1.54% or $349,196 from $22,704,309 to $23,053,505, from the prior year, primarily due to an increase in source of supply water purchases as a result of the increase in water sales.

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, 2018 and 2017. These financial statements have been prepared using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

REQUIRED FINANCIAL STATEMENTS

Balance 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 $95,708,297 and $94,917,603 as of December 31, 2018 and 2017, 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, 2018, net position from operations decreased $1.5 million along with a gain of $2.3 million from a prior period adjustment for the implementation of GASB No. 75. Also, for the year ended December 31, 2017, net position decreased by $1.1 million.

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 2018, the total of these categories represents an increase in cash and cash equivalents of $11,601,065, which is added to the beginning cash and cash equivalents of $3,784,789, to arrive at ending cash and cash equivalents of $15,385,854. For 2017, the total of these categories represents a decrease in cash and cash equivalents of $1,043,260, which is subtracted from beginning cash and cash equivalents of $4,827,946, to arrive at ending cash and cash equivalents of $3,784,789. Cash equivalents managed directly by the District consist of investments in the California Local Agency Investment Fund (LAIF) and money-market funds.

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Balance Sheets

	Balance, December 31, 2018	Balance, December 31, 2017	Change	Balance, December 31, 2016	Change
Assets:					
Current assets	$ 19,590,071	$ 22,153,999	$ (2,563,928)	$ 21,288,561	$ 865,438
Non-current assets	13,374,737	1,371,867	12,002,870	1,679,251	(307,384)
Capital assets, net	155,765,727	153,742,324	2,023,403	154,023,911	(281,587)
Total assets	188,730,535	177,268,190	11,462,345	176,991,723	276,467
Deferred outflows of resources	5,530,101	5,158,974	371,127	4,724,093	434,881
Total assets and deferred outflows	$ 194,260,636	$ 182,427,164	$ 11,833,472	$ 181,715,816	$ 711,348
Liabilities:					
Current liabilities	8,225,820	8,077,898	147,922	7,707,996	369,902
Non-current liabilities	86,440,682	75,438,581	11,002,101	74,031,763	1,406,818
Total liabilities	94,666,502	83,516,479	11,150,023	81,739,759	1,776,720
Deferred inflows of resources	3,885,837	3,993,082	(107,245)	3,957,895	35,187
Net position:					
Net investment in capital assets	105,089,394	103,487,203	1,602,191	103,339,383	147,820
Restricted	1,668,290	1,371,867	296,423	1,275,331	96,536
Unrestricted	(11,049,387)	(9,941,467)	(1,107,920)	(8,596,552)	(1,344,915)
Total net position	95,708,297	94,917,603	790,694	96,018,162	(1,100,559)
Total liabilities, deferred inflows and net position	$ 194,260,636	$ 182,427,164	$ 11,833,472	$ 181,715,816	$ 711,348

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

The District's Net Position as of December 31, 2018 totaled $95,708,297 compared with $94,917,603 as of December 31, 2017, an increase of 0.83%.

The District's Net Position as of December 31, 2017 totaled $94,917,603 compared with $96,018,162 as of December 31, 2017, a decrease of (1.15%).

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, December 31, 2018	Balance, December 31, 2017	Change	Balance, December 31, 2016	Change
Operating revenues	$ 24,884,078	$ 23,693,095	$ 1,190,983	$ 22,586,801	$ 1,106,294
Operating expenses	(24,435,835)	(23,053,505)	(1,382,330)	(22,704,309)	(349,196)
Operating income before overhead absorption	448,243	639,590	(191,347)	(117,508)	757,098
Overhead absorption	103,353	46,276	57,077	152,890	(106,614)
Operating income before depreciation	551,596	685,866	(134,270)	35,382	650,484
Depreciation expense	(5,353,052)	(6,113,751)	760,699	(5,599,740)	(514,011)
Operating (loss) after depreciation	(4,801,456)	(5,427,885)	626,429	(5,564,358)	136,473
Non-operating revenues(expenses), net	3,122,489	3,195,252	(72,763)	3,441,106	(245,854)
Net loss before capital contributions	(1,678,967)	(2,232,633)	553,666	(2,123,252)	(109,381)
Capital contributions	154,613	1,132,074	(977,461)	541,662	590,412
Change in net position	(1,524,354)	(1,100,559)	(423,795)	(1,581,590)	481,031
Net position:					
Beginning of year	94,917,603	96,018,162	(1,100,559)	96,645,100	(626,938)
Prior period adjustment	2,315,048	-	2,315,048	954,652	(954,652)
End of year	$ 95,708,297	$ 94,917,603	$ 790,694	$ 96,018,162	$ (1,100,559)

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 decreased from operations by ($1,524,354), ($1,100,599), and ($1,581,590) for the years ended December 31, 2018, 2017, and 2016 respectively.

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Total Revenues

	Balance, December 31, 2018	Balance, December 31, 2017	Increase (Decrease)	Balance, December 31, 2016	Increase (Decrease)
Operating revenues:					
Water sales – commodity charge	$ 9,062,634	$ 8,482,952	$ 579,682	$ 8,196,842	$ 286,110
Water sales – wholesale	496,975	438,255	58,720	229,052	209,203
Monthly meter service charge	13,294,482	12,710,214	584,268	12,176,890	533,324
Water quality fees	803,306	845,526	(42,220)	861,502	(15,976)
Elevation fees	378,380	365,618	12,762	349,673	15,945
Other charges for services	848,301	850,530	(2,229)	772,842	77,688
Total operating revenues	24,884,078	23,693,095	1,190,983	22,586,801	1,106,294
Non-operating:					
Property taxes – ad valorum	2,032,216	1,665,812	366,404	1,665,002	810
Property tax assessment for State Water Project	4,811,735	5,102,773	(291,038)	5,168,663	(65,890)
Successor agency component of property taxes	403,992	623,525	(219,533)	524,470	99,055
Rental revenue – cellular towers	44,754	63,716	(18,962)	120,710	(56,994)
Investment earnings	292,316	56,054	236,262	42,729	13,325
Change in investment – PRWA	296,423	96,536	199,887	90,756	5,780
Legal and insurance refunds/settlements	132,256	11,812	120,444	-	11,812
Department of Water Resources – FCR	266,877	266,638	239	285,255	(18,617)
Other non-operating revenues	203,082	84,502	118,580	117,632	(33,130)
Total non-operating	8,483,651	7,971,368	512,283	8,015,217	(43,849)
Total revenues	$ 33,367,729	$ 31,664,463	$ 1,703,266	$ 30,602,018	$ 1,062,445

In 2018, the District's operating revenues increased by 5.03% or $1,190,983 from $23,693,095 to $24,884,078, from the prior year, primarily due to an increase in water sales – commodity charge of $579,682 and monthly meter service charge of $584,268.

In 2017, the District's operating revenues increased by 4.9% or $1,106,294 from $22,586,801 to $23,693,095, from the prior year, primarily due to an increase in water sales – commodity charge of $286,110 and monthly meter service charge of $533,324.

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Total Expenses

	Balance, December 31, 2018	Balance, December 31, 2017	Increase (Decrease)	Balance, December 31, 2016	Increase (Decrease)
Operating expenses:					
Source of supply – water purchases	$ 2,799,849	$ 3,090,801	$ (290,952)	$ 2,464,905	$ 625,896
Operations and production	3,698,309	3,177,431	520,878	3,019,029	158,402
Facilities	7,355,368	6,580,697	774,671	7,347,469	(766,772)
Engineering	1,897,684	1,632,692	264,992	1,523,294	109,398
Water conservation	356,914	343,007	13,907	347,909	(4,902)
Administration	5,436,345	5,280,134	156,211	4,738,232	541,902
Finance and customer care	2,891,366	2,948,743	(57,377)	3,263,471	(314,728)
Operating expenses before overhead absorption	24,435,835	23,053,505	1,382,330	22,704,309	349,196
Overhead absorption	(103,353)	(46,276)	(57,077)	(152,890)	106,614
Operating expenses before depreciation	24,332,482	23,007,229	1,325,253	22,551,419	455,810
Depreciation	5,353,052	6,113,751	(760,699)	5,599,740	514,011
Total operating expenses	29,685,534	29,120,980	564,554	28,151,159	969,821
Non-operating expenses:					
Cost of debt issuance	308,867	-	308,867	-	-
State Water Project amortization expense	2,646,401	2,600,856	45,545	2,362,788	238,068
Interest expense – long-term debt	2,405,894	2,175,260	230,634	2,211,323	(36,063)
Total non-operating	5,361,162	4,776,116	585,046	4,574,111	202,005
Total expenses	$ 35,046,696	$ 33,897,096	$ 1,149,600	$ 32,725,270	$ 1,171,826

In 2018, the District's operating expenses before overhead absorption and depreciation expense increased by 6.00% or $1,382,330 from $23,053,505 to $24,435,835, from the prior year, primarily due to an increase in operations and production costs along with an increase in facilities expense.

In 2017, the District's operating expenses before overhead absorption and depreciation expense increased by 1.54% or $349,196 from $22,704,309 to $23,053,505, from the prior year, primarily due to an increase in source of supply water purchases as a result of the increase in water sales.

CAPITAL ASSETS

At the end of 2018, 2017 and 2016, the District's investment in capital assets was $155,765,727, $153,720,464, and $154,023,911 net of accumulated depreciation respectively. Capital asset additions during the years ended December 31, 2018 and 2017 were $5,424,247 and $3,350,357 for various projects and equipment. (More detailed information about capital assets can be found in Note 5 to the financial statements). Total depreciation expense for the year exceeded $5.3 million and $6.1 million as of December 31, 2018 and 2017, respectively.

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

Capital assets:	Balance, December 31, 2018	Balance, December 31, 2017	Balance, December 31, 2016
Non-depreciable assets	$ 12,562,526	$ 7,996,662	$ 8,208,610
Depreciable assets	308,204,404	302,972,181	295,153,330
Accumulated depreciation	(165,001,203)	(157,226,519)	(149,338,029)
Total capital assets, net	$ 155,765,727	$ 153,742,324	$ 154,023,911

LONG-TERM DEBT

At year-end the District had $64.5 million in capital leases, loan payables, and revenue bonds payables – an increase(decrease) of $11,970,967 and ($990,019) in 2018 and 2017 respectively – as shown in Table A-6. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

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

Long-term debt:	Balance, December 31, 2018	Balance, December 31, 2017	Balance, December 31, 2016
Capital leases payable	$ 592,917	$ 769,848	$ 47,286
Loan payable – 2012	6,315,204	7,462,288	8,577,741
Revenue bonds payable, net – 2013	43,732,681	44,344,809	44,941,937
Revenue bonds payable, net – 2018	13,907,110	-	-
Total	$ 64,547,912	$ 52,576,945	$ 53,566,964

CONDITIONS AFFECTING CURRENT FINANICAL POSITION

- The District continued to see a slight rebound trend of water usage for 2018. This signaled District customers continue to change their water habits after being required to meet the mandatory drought restrictions in 2016.

- Billed water consumption for the year ended December 31, 2018 was at 16,769-acre feet compared to 16,176-acre feet for the year ended December 31, 2017.

- The District saw a decrease in developers paying capital improvement fees for new development. Total funds received for the year ended December 31, 2018 were $106,947 compared to $1,021,406 for the year ended December 31, 2016.

- The District's assessed valuation has increased to $1.81 billion for FY 2017/2018 from $1.72 billion for FY 2016/2017.

- The District received $2.032 million in ad valorum property tax revenue for 2018.

- The District received $403,992 thousand in successor agency component property taxes for 2018.

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, 2018 and 2017

ASSETS	2018	2017
Current assets:		
Cash and cash equivalents (Note 2)	$ 3,679,407	$ 3,784,789
Investments (Note 2)	8,105,601	10,542,238
Accrued interest receivable	34,079	37,582
Accounts receivable – water sales and services, net (Note 3)	1,783,819	1,759,209
Accounts receivable – property taxes and assessments	4,353,483	4,628,764
Accounts receivable – other	15,227	18,508
Materials and supplies inventory	1,022,601	815,095
Prepaid expenses	595,854	567,814
Total current assets	19,590,071	22,153,999
Non-current assets:		
Restricted – cash and cash equivalents (Note 2)	11,706,447	-
Investment in Palmdale Recycled Water Authority (Note 4)	1,668,290	1,371,867
Capital assets – not being depreciated (Note 5)	12,562,526	7,996,662
Capital assets – being depreciated, net (Note 5)	143,203,201	145,745,662
Total non-current assets	169,140,464	155,114,191
Total assets	188,730,535	177,268,190
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt defeasance, net (Note 7)	2,165,132	2,321,824
Deferred amounts related to net OPEB obligation (Note 8)	923,382	-
Deferred amounts related to net pension liability (Note 9)	2,441,587	2,837,150
Total deferred outflows of resources	5,530,101	5,158,974
Total assets and deferred outflows of resources	$ 194,260,636	$ 182,427,164

PALMDALE WATER DISTRICT
Balance Sheets (continued)
December 31, 2018 and 2017

LIABILITIES	2018	2017
Current liabilities:		
Accounts payable and accrued expenses	$ 1,007,528	$ 1,136,962
Customer deposits for water service	2,942,630	2,872,519
Construction and developer deposits	1,638,385	1,625,816
Accrued interest payable	648,625	518,114
Long-term liabilities – due within one year:		
Compensated absences (Note 6)	118,457	108,258
Capital lease payable (Note 7)	163,600	159,145
Loan payable (Note 7)	1,186,595	1,147,084
Revenue bonds payable (Note 7)	520,000	510,000
Total current liabilities	8,225,820	8,077,898
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 6)	355,371	324,774
Capital lease payable (Note 7)	429,317	610,703
Loan payable (Note 7)	5,128,609	6,315,204
Revenue bonds payable, net (Note 7)	57,119,791	43,834,809
Net other post-employment benefits obligation (Note 8)	13,598,136	14,271,430
Net pension liability (Note 9)	9,809,458	10,081,661
Total non-current liabilities	86,440,682	75,438,581
Total liabilities	94,666,502	83,516,479
DEFERRED INFLOWS OF RESOURCES		
Unearned property taxes and assessments	3,300,000	3,500,000
Deferred amounts related to net pension liability (Note 9)	585,837	493,082
Total deferred inflows of resources	3,885,837	3,993,082
NET POSITION		
Net investment in capital assets	105,089,394	103,487,203
Restricted – Palmdale Recycled Water Authority (Note 4)	1,668,290	1,371,867
Unrestricted (Deficit) (Note 10)	(11,049,387)	(9,941,467)
Total net position	95,708,297	94,917,603
Total liabilities, deferred inflows of resources and net position	$ 194,260,636	$ 182,427,164

PALMDALE WATER DISTRICT

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended December 31, 2018 and 2017

	2018	2017
Operating revenues:		
Water sales – commodity charge	$ 9,062,634	$ 8,482,952
Water sales – wholesale	496,975	438,255
Monthly meter service charge	13,294,482	12,710,214
Water quality fees	803,306	845,526
Elevation fees	378,380	365,618
Other charges for services	848,301	850,530
Total operating revenues	24,884,078	23,693,095
Operating expenses:		
Source of supply – water purchases	2,799,849	3,090,801
Operations and production	3,698,309	3,177,431
Facilities	7,355,368	6,580,697
Engineering	1,897,684	1,632,692
Water conservation	356,914	343,007
Administration	5,436,345	5,280,134
Finance and customer care	2,891,366	2,948,743
Total operating expenses	24,435,835	23,053,505
Operating income before overhead absorption	448,243	639,590
Overhead absorption	103,353	46,276
Operating income before depreciation expense	551,596	685,866
Depreciation expense	(5,353,052)	(6,113,751)
Operating (loss)	(4,801,456)	(5,427,885)
Non-operating revenues(expenses):		
Property taxes – ad valorem	2,032,216	1,665,812
Property tax assessment for State Water Project	4,811,735	5,102,773
Successor agency component of property taxes	403,992	623,525
Rental revenue – cellular towers	44,754	63,716
Investment earnings	292,316	56,054
Changes in investment – Palmdale Recycled Water Authority (Note 4)	296,423	96,536
Legal and insurance refunds/settlements	132,256	11,812
Department of Water Resources – fixed charge recovery	266,877	266,638
Other non-operating revenues	203,082	84,502
Cost of debt issuance (Note 7)	(308,867)	-
State Water Project amortization expense	(2,646,401)	(2,600,856)
Interest expense – long-term debt	(2,405,894)	(2,175,260)
Total non-operating revenue(expense), net	3,122,489	3,195,252
Net (loss) before capital contributions	(1,678,967)	(2,232,633)
Capital contributions:		
Capital improvement fees	106,947	1,021,406
Federal and state capital grants	47,666	110,668
Total capital contributions	154,613	1,132,074
Change in net position	(1,524,354)	(1,100,559)
Net position:		
Beginning of year, as previously reported	94,917,603	96,018,162
Prior period adjustment (Note 11)	2,315,048	-
End of year	$ 95,708,297	$ 94,917,603

PALMDALE WATER DISTRICT

Statements of Cash Flows

For the Year Ended December 31, 2018

	2018	2017
Cash flows from operating activities:		
Cash receipts from water sales and services	$ 24,942,148	$ 23,775,146
Cash receipts from others	650,250	501,184
Cash paid to employees for salaries and wages	(7,462,928)	(7,411,999)
Cash paid to vendors and suppliers for materials and services	(16,362,605)	(13,081,698)
Net cash provided by operating activities	1,766,865	3,782,633
Cash flows from non-capital financing activities:		
Proceeds from property taxes	2,511,489	2,411,482
Proceeds from property tax assessment for State Water Project	4,811,735	5,102,773
Acquisition of State Water Project participation rights	(4,598,609)	(4,497,112)
Net cash provided by non-capital financing activities	2,724,615	3,017,143
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(5,424,247)	(3,350,357)
Proceeds from capital improvement fees and capital grants	154,613	1,132,074
Proceeds from issuance of revenue bonds	13,925,632	-
Cost of debt issuance	(308,867)	-
Principal paid on long-term debt	(1,816,229)	(1,717,891)
Interest paid on long-term debt	(2,153,773)	(1,932,632)
Net cash provided by (used in) capital and related financing activities	4,377,129	(5,868,806)
Cash flows from investing activities:		
Purchase of investments	(2,154,751)	(3,847,037)
Sales of investments	4,588,458	1,734,522
Investment earnings	298,749	138,388
Net cash provided by (used in) investing activities	2,732,456	(1,974,127)
Net increase (decrease) in cash and cash equivalents	11,601,065	(1,043,157)
Cash and cash equivalents:		
Beginning of year	3,784,789	4,827,946
End of year	$ 15,385,854	$ 3,784,789
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents	$ 3,679,407	$ 3,784,789
Restricted assets – cash and cash equivalents	11,706,447	-
Total cash and cash equivalents	$ 15,385,854	$ 3,784,789

PALMDALE WATER DISTRICT

Statements of Cash Flows (continued)

For the Year Ended December 31, 2018

	2018	2017
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	$ (4,801,456)	$ (5,427,885)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	5,353,052	6,113,751
Overhead absorption	(103,353)	(46,276)
Rental revenue – cellular towers	44,754	63,716
Legal and insurance refunds/settlements	132,256	11,812
Department of Water Resources – fixed charge recovery	266,877	266,638
Other non-operating revenues	203,082	84,502
Change in assets – (increase)decrease:		
Accounts receivable – water sales and services, net	(24,610)	178,105
Accounts receivable – other	3,281	74,516
Materials and supplies inventory	(207,506)	95,453
Prepaid expenses	(28,041)	145,540
Change in deferred outflows of resources – (increase)decrease		
Deferred amounts related to net OPEB obligation	(923,382)	-
Deferred amounts related to net pension liability	395,563	(591,573)
Change in liabilities – increase(decrease):		
Accounts payable and accrued expenses	(129,434)	321,409
Customer deposits for water service	70,111	(95,853)
Construction and developer deposits	12,569	(201)
Compensated absences	40,796	(6,136)
Net other post-employment benefits obligation	1,641,754	1,163,756
Net pension liability	(272,203)	1,396,172
Change in deferred inflows of resources – increase(decrease)		
Deferred amounts related to net pension liability	92,755	35,187
Total adjustments	6,568,321	9,210,518
Net cash provided by operating activities	$ 1,766,865	$ 3,782,633
Non-cash investing, capital and financing transactions:		
Change in fair-value of investments	$ (2,930)	$ (90,252)
Amortization of deferred amount on debt defeasance	$ (156,692)	$ (156,692)
Amortization of net premium(discount) on revenue bonds	$ 120,650	$ 102,128
Changes in investment – Palmdale Recycled Water Authority	$ 296,423	$ 96,536

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. For Palmdale Water District, this includes general operations, security, and wastewater treatment of 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.

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.

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)

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

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

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

Description	Estimated Lives
Capital Equipment	10 Years
Furniture	7-10 Years
Vehicles	5-10 Years
Small Equipment	3-5 Years

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

8. Customer Deposits for Water Service
Based on a customer's credit, the District may require a deposit deemed reasonable by the District. These deposits are held to pay off close out bills or to cover delinquent payments.

9. Compensated Absences
The liability for compensated absences reported on the balance sheet consists of unpaid, accumulated annual and vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

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)

10. Pensions

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

CalPERS	June 30, 2018	June 30, 2017
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017	July 1, 2015 to June 30, 2016

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

11. 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.

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

E. Property Taxes

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

F. Water Sales

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

G. Capital Improvement Fees

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

H. Use of Estimates

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

I. Reclassifications

Certain amounts presented in the prior year financial statements have been reclassified in order to be consistent with the current year's presentation.

J. New GASB Pronouncements

During the 2018 year, the following GASB Pronouncements were implemented:

1. **Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***

   In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits, or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

   This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

NOTE 2 – CASH AND INVESTMENTS

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

Description	Balance, December 31, 2018	Balance, December 31, 2017
Cash and cash equivalents	$ 3,679,407	$ 3,784,789
Investments	8,105,601	10,542,238
Restricted – cash and cash equivalents	11,706,447	-
Total	$ 23,491,455	$ 14,327,027

Cash and investments consisted of the following:

Description	Balance, December 31, 2018	Balance, December 31, 2017
Cash on hand	$ 5,700	$ 5,700
Demand deposits held with financial institutions	764,750	438,359
Local Agency Investment Fund (LAIF)	12,130	11,927
Money-market funds	2,896,827	3,213,651
Money-market funds – restricted	11,706,447	-
Investments	8,105,601	10,542,238
Total	$ 23,491,455	$ 14,211,875

The table below 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	35%	None
Money-market funds	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

NOTE 2 – CASH AND INVESTMENTS (continued)

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

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

Demand Deposits with Financial Institutions
At December 31, 2018 and 2017, the carrying amount of the District's demand deposits were $764,750 and $438,359, respectively, and the financial institution's balance were $742,338 and $1,232,012, respectively. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the District's balance for each year.

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

Money-Market Funds
Money-market funds are an investment whose objective is to earn modest investment earnings while maintaining a net asset value (NAV) of $1 per share (which is the funds main goal – preservation of principal). A money-market fund's portfolio is typically comprised of short-term, or less than one year, securities representing high-quality, liquid debt and monetary instruments with minimal credit risk. Money-market funds are Level 1 investments (with quoted prices in active markets for identical assets) that are Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers money-market funds a cash equivalent due to their highly liquid nature and NAV of $1 per share. As of December 31, 2018, the District held $2,896,827 in unrestricted money-market funds and $11,706,447 in restricted money-market funds. As of December 31, 2017, the District held $3,213,651 in unrestricted money-market funds.

NOTE 2 – CASH AND INVESTMENTS (continued)

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

The District is a voluntary participant in LAIF. The fair value of the District's investment in this pool is reported at an amount based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis and it is Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of December 31, 2018, and 2017, the District held $12,130 and $11,927 in LAIF, respectively.

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

Investments
Investment maturities and credit ratings as of December 31, 2018, consisted of the following:

				Maturity		
Type of Investments	**Measurement Input**	**Credit Rating**	**Fair Value**	**12 Months or Less**	**13 to 24 Months**	**25 to 60 Months**
U.S. Treasury notes	Level 1	Exempt	$ 4,846,128	$ 4,846,128	-	-
Certificates-of-deposit	Level 2	Not Rated	3,259,473	2,314,095	784,714	160,664
Total investments			$ 8,105,601	$ 7,160,223	$ 784,714	$ 160,664

Investment maturities and credit ratings as of December 31, 2017, consisted of the following:

				Maturity		
Type of Investments	**Measurement Input**	**Credit Rating**	**Fair Value**	**12 Months or Less**	**13 to 24 Months**	**25 to 60 Months**
U.S. Treasury notes	Level 1	Exempt	$ 6,836,426	$ 1,993,210	$ 4,843,216	-
Certificates-of-deposit	Level 2	Not Rated	3,705,812	1,599,319	1,393,836	712,657
Total investments			$ 10,542,238	$ 3,592,529	$ 6,237,052	$ 712,657

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).

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments – Credit Risk
The District's investment policy limits investment choices to investment securities allowed by the California Government Code. At December 31, 2018, all investments represented investment securities which were issued, registered and held by the 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, 2018 and 2017, 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, 2018, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Investments
U.S. Treasury note - February 15, 2019	$ 1,500,630	18.51%
U.S. Treasury note - February 28, 2019	998,570	12.32%
U.S. Treasury note - March 15, 2019	1,354,198	16.71%
U.S. Treasury note - December 31, 2019	992,730	12.25%
Total	$ 4,846,128	59.79%

Investments greater than 5% for the year ended December 31, 2017, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Investments
U.S. Treasury note - June 15, 2018	$ 998,440	9.47%
U.S. Treasury note - December 15, 2018	994,770	9.44%
U.S. Treasury note - February 15, 2019	1,514,940	14.37%
U.S. Treasury note - February 15, 2019	987,890	9.37%
U.S. Treasury note - February 28, 2019	996,020	9.45%
U.S. Treasury note - March 15, 2019	1,344,366	12.75%
Total	$ 6,836,426	64.85%

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

The balances consisted of the following;

Description	Balance, December 31, 2018	Balance, December 31, 2017
Accounts receivable – water sales and services	$ 1,847,954	$ 1,912,877
Allowance for doubtful accounts	(64,135)	(153,668)
Accounts receivable – water sales and services, net	$ 1,783,819	$ 1,759,209

NOTE 4 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY

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

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

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

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

For 2018, the District reports its equity interest as of the date of the last audited financial statements of the Authority as of December 31, 2018, which was audited by our firm, whose report dated June 25, 2019 expressed an unmodified opinion on those financial statements.

For 2017, the District reports its equity interest as of the date of the last audited financial statements of the Authority as of December 31, 2017, which was audited by other auditors, whose report dated August 7, 2018 expressed an unmodified opinion on those financial statements.

NOTE 4 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY (continued)

The following is the condensed financial statement of the Authority for the year ended December 31, 2018:

Palmdale Recycled Water Authority
Condensed Balance Sheet
December 31, 2018

	Audited Total	City of Palmdale 50% Share	District 50% Share
Assets:			
Total assets	$ 3,365,314	$ 1,682,657	$ 1,682,657
Liabilities:			
Total liabilities	28,735	14,368	14,367
Net position:			
Total net position	3,336,579	1,668,289	1,668,290
Total liabilities and net position	$ 3,365,314	$ 1,682,657	$ 1,682,657

Palmdale Recycled Water Authority
Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2018

	Audited Total	City of Palmdale 50% Share	District 50% Share
Operating revenues:			
Total operating revenues	$ 675,963	$ 337,981	$ 337,982
Operating expenses:			
Total operating expenses	87,662	43,831	43,831
Operating income	588,301	294,150	294,151
Non-operating revenues:			
Total non-operating revenue	4,543	2,271	2,272
Change in net position	592,844	296,421	296,423
Net position:			
Beginning of year	2,743,735	1,371,868	1,371,867
End of year	$ 3,336,579	$ 1,668,289	$ 1,668,290

Palmdale Recycled Water Authority
Condensed Statement of Cash Flows
For the Year Ended December 31, 2018

	Audited Total	City of Palmdale 50% Share	District 50% Share
Cash flows from operating activities:			
Net cash provided by operating activities	$ 623,946	$ 311,973	$ 311,973
Cash flows from investing activities:			
Net cash provided by investing activities	(893,983)	(446,992)	(446,991)
Net increase in cash and cash equivalents	(270,037)	(135,019)	(135,018)
Cash and cash equivalents:			
Beginning of year	926,807	463,404	463,403
End of year	$ 656,770	$ 328,385	$ 328,385
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 588,301	$ 294,151	$ 294,150
Depreciation	53,407	26,704	26,703
Change in assets	(4,365)	(2,183)	(2,182)
Change in liabilities	(13,397)	(6,699)	(6,698)
Net cash provided by operating activities	$ 623,946	$ 311,973	$ 311,973

NOTE 4 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY (continued)

The following is the condensed financial statement of the Authority for the year ended December 31, 2017:

Palmdale Recycled Water Authority
Condensed Balance Sheet
December 31, 2017

	Audited Total	City of Palmdale 50% Share	District 50% Share
Assets:			
Total assets	$ 2,785,867	$ 1,392,934	$ 1,392,933
Liabilities:			
Total liabilities	42,132	21,066	21,066
Net position:			
Total net position	2,743,735	1,371,868	1,371,867
Total liabilities and net position	$ 2,785,867	$ 1,392,934	$ 1,392,933

Palmdale Recycled Water Authority
Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2017

	Audited Total	City of Palmdale 50% Share	District 50% Share
Operating revenues:			
Total operating revenues	$ 251,560	$ 125,780	$ 125,780
Operating expenses:			
Total operating expenses	115,736	57,868	57,868
Operating income	135,824	67,912	67,912
Non-operating revenues:			
Total non-operating revenue	57,249	28,625	28,624
Change in net position	193,073	96,537	96,536
Net position:			
Beginning of year	2,550,662	1,275,331	1,275,331
End of year	$ 2,743,735	$ 1,371,868	$ 1,371,867

Palmdale Recycled Water Authority
Condensed Statement of Cash Flows
For the Year Ended December 31, 2017

	Audited Total	City of Palmdale 50% Share	District 50% Share
Cash flows from operating activities:			
Net cash provided by operating activities	$ 152,018	$ 76,009	$ 76,009
Cash flows from other activities:			
Net cash provided by other activities	57,249	28,625	28,624
Net increase in cash and cash equivalents	209,267	104,634	104,633
Cash and cash equivalents:			
Beginning of year	717,540	358,770	358,770
End of year	$ 926,807	$ 463,404	$ 463,403
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 135,824	$ 67,912	$ 67,912
Depreciation	53,407	26,703	26,704
Change in assets	3,251	1,626	1,625
Change in liabilities	(40,464)	(20,232)	(20,232)
Net cash provided by operating activities	$ 152,018	$ 76,009	$ 76,009

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

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

Description	Balance, January 1, 2018	Additions	Deletions/ Transfers	Balance, December 31, 2018
Non-depreciable assets:				
Land and land rights	$ 1,784,357	-	-	$ 1,784,357
Construction-in-process	6,212,305	5,383,101	(817,237)	10,778,169
Total non-depreciable assets	7,996,662	5,383,101	(817,237)	12,562,526
Depreciable assets:				
Buildings, wells and distribution system	215,384,643	731,780	-	216,116,423
SWP – participation rights	75,981,778	4,598,609	-	80,580,387
Machinery and equipment	11,605,760	126,603	(224,769)	11,507,594
Total depreciable assets	302,972,181	5,456,992	(224,769)	308,204,404
Accumulated depreciation:				
Buildings, wells and distribution system	(117,820,520)	(4,856,911)	-	(122,677,431)
SWP – participation rights	(29,119,145)	(2,646,401)	-	(31,765,546)
Machinery and equipment	(10,286,854)	(496,141)	224,769	(10,558,226)
Total accumulated depreciation	(157,226,519)	(7,999,453)	224,769	(165,001,203)
Total depreciable assets, net	145,745,662	(2,542,461)	-	143,203,201
Total capital assets, net	$ 153,742,324	$ 2,840,640	$ (817,237)	$ 155,765,727

Capital asset activity for the year ended December 31, 2017, was as follows:

Description	Balance, January 1, 2017	Additions	Deletions/ Transfers	Balance, December 31, 2017
Non-depreciable assets:				
Land and land rights	$ 1,784,357	-	-	$ 1,784,357
Construction-in-process	6,424,253	2,636,767	(2,848,715)	6,212,305
Total non-depreciable assets	8,208,610	2,636,767	(2,848,715)	7,996,662
Depreciable assets:				
Buildings, wells and distribution system	212,937,794	3,032,400	(585,551)	215,384,643
SWP – participation rights	71,484,666	4,497,112	-	75,981,778
Machinery and equipment	10,730,870	1,115,456	(240,566)	11,605,760
Total depreciable assets	295,153,330	8,644,968	(826,117)	302,972,181
Accumulated depreciation:				
Buildings, wells and distribution system	(112,826,930)	(5,579,141)	585,551	(117,820,520)
SWP – participation rights	(26,518,289)	(2,600,856)	-	(29,119,145)
Machinery and equipment	(9,992,810)	(534,610)	240,566	(10,286,854)
Total accumulated depreciation	(149,338,029)	(8,714,607)	826,117	(157,226,519)
Total depreciable assets, net	145,815,301	(69,639)	-	145,745,662
Total capital assets, net	$ 154,023,911	$ 2,567,128	$ (2,848,715)	$ 153,742,324

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (continued)

Construction-In-Process
The balance consists of the following projects:

Project Description	Balance December 31, 2016	Balance December 31, 2017	Balance December 31, 2018
Sediment removal - Littlerock Dam	$ 1,807,482	$ 2,222,266	$ 3,026,034
Littlerock Creek Groundwater Recharge Project	2,274,315	3,074,489	3,636,800
Grade control structure – Littlerock Dam	-	-	1,726,769
Meter Exchange Project	-	-	487,830
Spec 1703-ML Replacement 13th St E/Avenue R	-	-	229,174
Upper Armagosa Creek project	129,215	136,561	156,776
45th St Tank Site - Altitude Valve Replacement	-	-	123,584
Salt Silo Water Treatment Plant	-	-	106,679
Well 29 - Rehabilitation	-	-	105,783
Clearwell - Booster #2 Replacement	-	119,224	-
Tierra Subida Ave. waterline replacement	447,920	-	-
El Camino Dr. - mainline replacement	385,798	-	-
Well 15 - inspection and replacement	197,014	-	-
Various other minor projects <$100,000	1,182,509	659,765	1,178,740
Total construction-in-process	$ 6,424,253	$ 6,212,305	$ 10,778,169

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.

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (continued)

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

NOTE 6 – COMPENSATED ABSENCES

Summary changes to compensated absences balances for the year ended December 31, 2018, were as follows:

Balance, January 1, 2018	Additions	Deletions	Balance, December 31, 2018	Due Within One Year	Due in More Than One Year
$ 433,032	$ 578,137	$ (537,341)	$ 473,828	$ 118,457	$ 355,371

Summary changes to compensated absences balances for the year ended December 31, 2017, were as follows:

Balance, January 1, 2017	Additions	Deletions	Balance, December 31, 2017	Due Within One Year	Due in More Than One Year
$ 439,168	$ 498,806	$ (504,942)	$ 433,032	$ 108,258	$ 324,774

NOTE 7 – LONG-TERM DEBT

Changes in long-term debt for the year ended December 31, 2018, were as follows:

Long-Term Debt	Balance, January 1, 2018	Additions/ Adjustments	Payments/ Amortization	Balance, December 31, 2018	Current Portion	Non-Current Portion
Capital lease payable – 2017	$ 769,848	$ (17,786)	$ (159,145)	$ 592,917	$ 163,600	$ 429,317
Loan payable – 2012	7,462,288	-	(1,147,084)	6,315,204	1,186,595	5,128,609
Revenue bonds payable – 2013	41,715,000	-	(510,000)	41,205,000	520,000	40,685,000
Revenue bonds payable – discount	(110,744)	-	4,301	(106,443)	-	(106,443)
Revenue bonds payable – premium	2,740,553	-	(106,429)	2,634,124	-	2,634,124
Revenue bonds payable, net – 2013	44,344,809	-	(612,128)	43,732,681	520,000	43,212,681
Revenue bonds payable - 2018	-	12,805,000	-	12,805,000	-	12,805,000
Revenue bonds payable - premium	-	1,120,632	(18,522)	1,102,110	-	1,102,110
Revenue bonds payable, net - 2018	-	13,925,632	(18,522)	13,907,110	-	13,907,110
Total long-term debt	$ 52,576,945	$ 13,907,846	$ (1,936,879)	$ 64,547,912	$ 1,870,195	$ 62,677,717

Changes in long-term debt for the year ended December 31, 2017, were as follows:

Long-Term Debt	Balance, January 1, 2017	Additions/ Adjustments	Payments/ Amortization	Balance, December 31, 2017	Current Portion	Non-Current Portion
Capital lease payable – 2013	$ 47,286	$ -	$ (47,286)	$ -	$ -	$ -
Capital lease payable – 2017	-	830,000	(60,152)	769,848	159,145	610,703
Loan payable – 2012	8,577,741	-	(1,115,453)	7,462,288	1,147,084	6,315,204
Revenue bonds payable – 2013	42,210,000	-	(495,000)	41,715,000	510,000	41,205,000
Revenue bonds payable – discount	(115,045)	-	4,301	(110,744)	-	(110,744)
Revenue bonds payable – premium	2,846,982	-	(106,429)	2,740,553	-	2,740,553
Revenue bonds payable, net – 2013	44,941,937	-	(597,128)	44,344,809	510,000	43,834,809
Total long-term debt	$ 53,566,964	$ 830,000	$ (1,820,019)	$ 52,576,945	$ 1,816,229	$ 50,150,013

NOTE 7 – LONG-TERM DEBT (continued)

A. Capital Lease Payable – 2017

On January 18, 2018, the District entered into an $830,000 installment purchase agreement in order to acquire, construct, equip, and furnish certain improvements to its facilities. Capital lease payments consisting of principal and interest in the amount of $89,476.70 are due every six months beginning in July, 2018 until January, 2022 at an annual interest rate of 2.78%.

Annual debt service requirements for the capital lease payable are as follows:

Year	Principal	Interest	Total
2019	$ 163,600	$ 15,354	$ 178,954
2020	168,179	10,774	178,953
2021	172,886	6,067	178,953
2022	88,252	1,225	89,477
Total	592,917	$ 33,420	$ 626,337
Less: current	(163,600)		
Total non-current	$ 429,317		

B. Loan Payable – 2012

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

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

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

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

Year	Principal	Interest	Total
2019	$ 1,186,595	$ 186,646	$ 1,373,241
2020	1,224,583	149,569	1,374,152
2021	1,261,008	111,327	1,372,335
2022	1,300,396	71,933	1,372,329
2023	1,342,622	31,296	1,373,918
Total	6,315,204	$ 550,771	$ 6,865,975
Less: current	(1,186,595)		
Total non-current	$ 5,128,609		

NOTE 7 – LONG-TERM DEBT (continued)

C. Revenue Bonds Payable

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

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

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

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

Year	Principal	Interest	Total
2019	$ 520,000	$ 1,825,825	$ 2,345,825
2020	535,000	1,810,225	2,345,225
2021	565,000	1,783,475	2,348,475
2022	595,000	1,755,225	2,350,225
2023	620,000	1,725,475	2,345,475
2024-2028	11,675,000	7,584,725	19,259,725
2029-2033	14,550,000	4,714,600	19,264,600
2034-2038	6,865,000	1,723,950	8,588,950
2039-2043	5,280,000	650,000	5,930,000
Total	41,205,000	$ 23,573,500	$ 64,778,500
Less: current	(520,000)		
Total non-current	$ 40,685,000		

NOTE 7 – LONG-TERM DEBT (continued)

C. Revenue Bonds Payable (continued)

Deferred Amount on Debt Defeasance, Net

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2018, was as follows:

Description	Balance, January 1, 2018	Additions	Amortization	Balance, December 31, 2018
Deferred amount on debt defeasance, net	$ 2,321,824	$ -	$ (156,692)	$ 2,165,132

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2017, was as follows:

Description	Balance, January 1, 2017	Additions	Amortization	Balance, December 31, 2017
Deferred amount on debt defeasance, net	$ 2,478,516	$ -	$ (156,692)	$ 2,321,824

Revenue Bonds Payable – 2018

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

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

Year	Principal	Interest	Total
2019	$ -	$ 568,894	$ 568,894
2020	-	568,893	568,893
2021	-	568,894	568,894
2022	250,000	568,893	818,893
2023	265,000	556,394	821,394
2024-2028	1,525,000	2,583,970	4,108,970
2029-2033	1,940,000	2,162,969	4,102,969
2034-2038	2,350,000	1,751,200	4,101,200
2039-2043	2,865,000	1,236,000	4,101,000
2039-2043	3,610,000	489,875	4,099,875
Total	12,805,000	$ 11,055,982	$ 23,860,982
Less: current	-		
Total non-current	$ 12,805,000		

NOTE 8 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Summary

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

Description	2018	2017*
OPEB related deferred outflows	$ 923,382	$ -
Net other post-employment benefits obligation	13,598,136	14,271,430

* The December 31, 2017 net other post-employment benefits balance of $14,271,430 was calculated under GASB Statement No. 45. As the provisions for GASB Statement No. 45 were replaced with GASB Statement No. 75 in the following footnote, the District is not presenting the footnote information regarding the actuarial methods and assumptions used to calculate the December 31, 2017 net other post-employment benefits balance of $14,271,430 in the following footnote. See the District's December 31, 2017 annual financial statement for that information.

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 $1,850 cap
District cap on coverage	$1,850

Employees covered by benefit terms

At December 31, 2018, the following employees were covered by the benefit terms:

Plan Members	Covered Participants
Active members	82
Inactives entitled to but not yet receiving benefits	-
Inactives currently receiving benefits	16
Total plan members	98

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

A. Total OPEB Liability

The District's total OPEB liability of $13,598,136 as of December 31, 2018 was measured as of December 31, 2017 (Measurement Date), and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs

The total OPEB liability in the December 31, 2017 (Measurement Date) actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.44%
Inflation	2.75%
Salary Increases	3.0% per annum, in aggregate
Investment Rate of Return	3.44%
Mortality Rate	CalPERS Membership Data
Pre-Retirement Turnover	CalPERS Membership Data
Healthcare Trend Rate	Non-Medicare 7.5% to Medicare 6.5%

Mortality, Retirement & Turnover Assumptions

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

Discount Rate

The discount rate used to measure the total OPEB liability was 3.44 percent. 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, 2017 (measurement Date) actuarial valuation:

	Total OPEB Liability
Balance at January 1, 2018	$ 12,239,902
Changes for the year:	
Service cost	471,435
Interest	475,129
Assumption changes	695,190
Benefit payments	(283,520)
Net changes	1,358,234
Balance at December 31, 2018	$ 13,598,136

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

B. Changes in the Total OPEB Liability (continued)

Sensitivity of the total OPEB liability to changes in the 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:

1% Decrease 2.44%	Discount Rate 3.44%	1% Increase 4.44%
$ 15,969,365	$ 13,598,136	$ 11,688,801

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:

1% Decrease	Healthcare Cost Current Trend	1% Increase
$ 11,529,398	$ 13,598,136	$ 16,247,589

C. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
For the year ended December 31, 2018, the District recognized OPEB expense/(credit) of $1,025,563.

At December 31, 2018, the District reported $923,382 of deferred outflows/(inflows) of resources for related to the net OPEB obligation as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date of the net OPEB liability	$ 307,191	$ -
Changes in assumptions	616,191	-
Total	$ 923,382	$ -

At December 31, 2018, the District reported $307,191 of deferred outflows of resources for employer contributions made subsequent to the measurement date which will be used to reduce the net OPEB liability balance in the coming year. Amortization of the remaining deferred outflows/(inflows) of resources related to the net OPEB obligation is as follows:

	Amount
Year Ended June 30:	
2019	$ 78,999
2020	78,999
2021	78,999
2022	78,999
2023	78,999
Thereafter	221,196
Total	$ 616,191

NOTE 9 – PENSION PLAN

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

Description	2018	2017
Pension related deferred outflows	$ 2,441,587	$ 2,837,150
Net pension liability	9,809,458	10,081,661
Pension related deferred inflows	585,837	493,082

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, 2018 and June 30, 2017, respectively, which are rolled-forward for the District's fiscal years ended December 31, 2018 and December 31, 2017.

Pension Related Debt – CalPERS Side-Fund
As of June 30, 2003, CalPERS implemented risk-pooling for the District's agent multiple-employer public employee defined benefit pension plan. As a result, the District's defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate. CalPERS actuarially calculated the amount needed to bring the District into the cost sharing multiple-employer plan on an equal basis with other governmental agencies that had less than 100 active and retired employees combined. The reason that CalPERS switched these governmental agencies into the cost sharing multiple-employer plan was to smooth the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

A portion of the District's annual required contributions to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the District is required to make annual payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the District's CalPERS Side-Fund is specific to the District and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the Side Fund falls under the definition of pension-related debt and recorded as liability on the District's financial statements.

Annual payments on the CalPERS Side-Fund represent principal and interest payments on the pension-related debt. Debt principal and interest expense is blended into the CalPERS pension benefit rate by individual class of District employee and repaid to CalPERS each payroll period throughout the fiscal year.

In the District's June 30, 2017 CalPERS Actuarial Valuation for its multi-agency cost-sharing pension plan, the CalPERS Chief Actuary provided the District with a "Fresh Start", in which, CalPERS combined the District's multiple-year amortization bases for the District's Miscellaneous Classic pension plan into a revised 20-year single-base amortization period. In doing so, CalPERS has combined the District's Pension Related Debt – CalPERS Side-Fund liability into the District's net pension liability for future amortization purposes. Therefore, the District has reclassed the District's Pension Related Debt – CalPERS Side-Fund of $816,046 as of December 31, 2017 into the District's net pension liability for financial reporting purposes as the stand-alone liability has been combined by CalPERS.

NOTE 9 – PENSION PLAN (continued)

A. General Information about the Pension Plan

The Plan

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

	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	6.896%	6.250%
Required employer contribution rates – FY 2018	8.921%	6.533%
Required employer contribution rates – FY 2017	8.880%	6.555%

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, 2017 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, 2017 Annual Actuarial Valuation Reports.

At June 30, 2018, the following members were covered by the benefit terms:

	Miscellaneous Plans		
Plan Members	**Classic Tier 1**	**PEPRA Tier 2**	**Total**
Active members	65	17	82
Transferred and terminated members	41	2	43
Retired members and beneficiaries	52	-	52
Total plan members	158	19	177

NOTE 9 – PENSION PLAN (continued)

A. General Information about the Pension Plan (continued)

Plan Description, Benefits Provided and Employees Covered (continued)
At June 30, 2017, the following members were covered by the benefit terms:

	Miscellaneous Plans		
Plan Members	Classic Tier 1	PEPRA Tier 2	Total
Active members	72	12	84
Transferred and terminated members	45	1	46
Retired members and beneficiaries	43	-	43
Total plan members	160	13	173

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, 2018, (Measurement Date June 30, 2018) were as follows:

Contribution Type	Total
Contributions – employer	$ 1,251,195
Contributions – members	450,430
Total contributions	$ 1,701,625

Contributions for the year ended December 31, 2017, (Measurement Date June 30, 2017) were as follows:

Contribution Type	Total
Contributions – employer	$ 1,026,759
Contributions – members	369,633
Total contributions	$ 1,396,392

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, 2018 and 2017, the contributions recognized as part of pension expense for the Plan were $1,251,195 and $1,026,759.

NOTE 9 – PENSION PLAN (continued)

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

Proportionate Share of Net Pension Liability and Pension Expense
The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period:

Changes in the net pension liability for the year ended December 31, 2018, 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, 2017 (Measurement Date)	$ 39,818,738	$ 29,737,077	$ 10,081,661
Balance as of June 30, 2018 (Measurement Date)	$ 42,065,728	$ 32,256,270	$ 9,809,458
Change in Plan Net Pension Liability	$ 2,246,990	$ 2,519,193	$ (272,203)

Changes in the net pension liability for the year ended December 31, 2017, 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, 2016 (Measurement Date)	$ 35,580,180	$ 26,894,691	$ 8,685,489
Balance as of June 30, 2017 (Measurement Date)	$ 39,818,738	$ 29,737,077	$ 10,081,661
Change in Plan Net Pension Liability	$ 4,238,558	$ 2,842,386	$ 1,396,172

For the year ended December 31, 2018 and 2017 pension expense was $969,297 and $1,828,199, 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, 2017 and 2016). 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, 2018 and 2017). 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, 2018 and 2017 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY 2017-2018 and FY 2016-2017).

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

NOTE 9 – PENSION PLAN (continued)

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

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

(4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.

(5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

(6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

As of December 31, 2018 and 2017, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of $9,809,458 and $10,081,661, 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, 2017 and 2016, 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, 2016 and 2015 rolled forward to December 31, 2017 and 2016 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, 2018, measurement date was as follows:

	Percentage Share of Risk Pool		
	Fiscal Year Ending December 31, 2018	Fiscal Year Ending December 31, 2017	Change Increase/ (Decrease)
Measurement Date	June 30, 2018	June 30, 2017	
Percentage of Risk Pool Net Pension Liability	0.26029%	0.25575%	0.00454%
Percentage of Plan (PERF C) Net Pension Liability	0.10180%	0.10166%	0.00014%

The District's proportionate share of the net pension liability for the June 30, 2017, measurement date was as follows:

	Percentage Share of Risk Pool		
	Fiscal Year Ending December 31, 2017	Fiscal Year Ending December 31, 2016	Change Increase/ (Decrease)
Measurement Date	June 30, 2017	June 30, 2016	
Percentage of Risk Pool Net Pension Liability	0.25575%	0.25002%	0.00573%
Percentage of Plan (PERF C) Net Pension Liability	0.10166%	0.10037%	0.00128%

NOTE 9 – PENSION PLAN (continued)

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

The total amount of $700,625 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, 2018. At December 31, 2018, 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	$ 700,625	$ -
Difference between actual and proportionate share of employer contributions	-	(183,684)
Adjustment due to differences in proportions	197,788	-
Differences between expected and actual experience	376,372	(128,077)
Differences between projected and actual earnings on pension plan investments	48,495	-
Changes in assumptions	1,118,307	(274,076)
Total Deferred Outflows/(Inflows) of Resources	$ 2,441,587	$ (585,837)

The total amount of $502,091 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, 2018. At December 31, 2017, 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	$ 502,091	$ -
Difference between actual and proportionate share of employer contributions	-	(174,531)
Adjustment due to differences in proportions	284,344	-
Differences between expected and actual experience	13,391	(191,856)
Differences between projected and actual earnings on pension plan investments	375,774	-
Changes in assumptions	1,661,550	(126,695)
Total Deferred Outflows/(Inflows) of Resources	$ 2,837,150	$ (493,082)

NOTE 9 – PENSION PLAN (continued)

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

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2018, will be amortized to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended December 31	Deferred Outflows/(Inflows) of Resources
2019	$ 987,521
2020	568,084
2021	(312,250)
2022	(88,230)
2023	-
Total	$ 1,155,125

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2017, will be amortized to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended December 31	Deferred Outflows/(Inflows) of Resources
2018	$ 435,685
2019	1,012,387
2020	617,008
2021	(223,103)
2022	-
Total	$ 1,841,977

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2018 and 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2017 and 2016, total pension liability. The December 31, 2018 and 2017, total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry age normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

NOTE 9 – PENSION PLAN (continued)

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

Discount Rate

The discount rate used to measure the total pension liability for PERF B was 7.65%. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF B. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS' website.

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

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

Investment Type	Assumed Allocation	Real Return Years 1 - 10[1]	Real Return Years 11+[2]
Global Equity	50%	4.80%	5.98%
Global Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Assets	13%	3.75%	4.93%
Liquidity	1%	0.00%	-0.92%
	100%		

[1] An expected inflation rate-of-return of 2.5% is used for years 1-10.
[2] An expected inflation rate-of-return of 3.0% is used for years 11+.

NOTE 9 – PENSION PLAN (continued)

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate
The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

Changes in the discount rate for the year ended June 30, 2018, was as follows:

	Plan's Net Pension Liability/(Asset)		
Plan Type	**Discount Rate - 1% 6.15%**	**Current Discount Rate 7.15%**	**Discount Rate + 1% 8.15%**
CalPERS – Miscellaneous Plan	$ 15,499,739	$ 9,809,458	$ 5,112,225

Changes in the discount rate for the year ended June 30, 2017, was as follows:

	Plan's Net Pension Liability/(Asset)		
Plan Type	**Discount Rate - 1% 6.15%**	**Current Discount Rate 7.15%**	**Discount Rate + 1% 8.15%**
CalPERS – Miscellaneous Plan	$ 15,558,604	$ 10,081,661	$ 5,545,557

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, 2018 and 2017, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the year ended December 31, 2018 and 2017.

NOTE 10 – UNRESTRICTED (DEFICIT) NET POSITION

As of December 31, 2018 and 2017, the District has an unrestricted net position deficit of ($11,049,387) and ($9,941,467). Due to the nature of the deficit from the implementation of GASB Statements No. 68 & 75 in the past fiscal years, the District will continue to make its actuarial determined contributions to CalPERS and annually review its outstanding net pension and net OPEB obligations funding requirements for future periods to reduce its deficit position.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

The District's beginning net position has been restated by $2,315,048 for the implementation of GASB Statement No. 75 as follows:

Description	Balance
Net position as of January 1, 2018 – as previously reported	$ 94,917,603
GASB Statement No. 75 restatement for:	
Net other post-employment benefits obligation	2,315,048
Net position as of January 1, 2018 – as restated	$ 97,232,651

NOTE 12 – RISK MANAGEMENT

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. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At December 31, 2018 and 2017, 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:

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.

NOTE 12 – RISK MANAGEMENT (continued)

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, 2018, 2017, and 2016. 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, 2018, 2017, and 2016.

NOTE 13 – DEFERRED COMPENSATION SAVINGS PLAN

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

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

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

NOTE 14 – COMMITMENTS AND CONTINGENCIES

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

Fiscal Year	Amount
2019	$6,600,773
2020	6,356,131
2021	6,331,737
2022	6,766,529
2023	6,842,821

As of December 31, 2018, the District has expended approximately $114,100,340 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	$83,865,201
Delta water charges	25,373,877
Off-aqueduct power facilities	78,348
Revenue bond surcharge	6,244,451
Total	$115,561,877

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 14 – 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 $10,100,562 to complete the open construction contracts as of December 31, 2018. These include the following:

Project Description	Cost of Project to Date	Estimated Costs to Complete	Total Expected Project Cost
Sediment removal – Littlerock Dam	$3,026,034	$1,002,699	$ 4,028,733
Grade control structure – Littlerock Dam	1,726,769	7,774,039	9,500,808
Littlerock Creek Groundwater Recharge Project	3,636,800	230,600	3,867,400
Upper Armagosa Creek project	156,776	1,093,224	1,250,000
Total	$ 8,546,379	$ 10,100,562	$ 18,646,941

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.

Required Supplementary Information

PALMDALE WATER DISTRICT

Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended December 31, 2018 and 2017

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Measurement Date:	**June 30, 2018**	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
District's proportion of the net pension liability	0.10180%	0.10166%	0.10037%	0.09802%
District's proportionate share of the net pension liability	$ 9,809,458	$ 10,081,661	$ 8,685,489	$ 6,727,907
District's covered-employee payroll	$ 6,735,592	$ 6,482,822	$ 6,778,010	$ 6,377,315
District's proportionate share of the net pension liability as a percentage of covered-employee payroll	145.64%	155.51%	128.14%	105.50%
Plan's fiduciary net position as a percentage of the plan's total pension liability	75.26%	73.31%	74.06%	78.40%

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

PALMDALE WATER DISTRICT

Schedule of Pension Contributions

For the Year Ended December 31, 2018 and 2017

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Contributions for the years ending	**2018**	**2017**	**2016**	**2015**	**2014**
Actuarially required contribution	1,251,195	1,026,759	$ 914,747	$ 819,205	$ 805,370
Contributions in relation to the contractually required contribution	(1,251,195)	(1,026,759)	(914,747)	(819,205)	(805,370)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's Covered-Employee Payroll	6,735,592	6,482,822	$ 6,589,909	$ 6,497,710	$ 5,907,552
Contributions as a Percentage of Covered-Employee Payroll	18.58%	15.84%	13.88%	12.610%	13.630%

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

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

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

Notes to the Schedule:

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

PALMDALE WATER DISTRICT

Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Year Ended December 31, 2018 and 2017

Last Ten Fiscal Years*

	2018
Total OPEB liability	
Service cost	$ 471,435
Interest	475,129
Assumptions changes	695,190
Benefit payments	(283,520)
Net change in total OPEB liability	1,358,234
Total OPEB liability - beginning	12,239,902
Total OPEB liability - ending	$ 13,598,136
Covered-employee payroll	$ 7,459,193
Total OPEB liability as a percentage of covered-employee payroll	182.30%

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

PALMDALE WATER DISTRICT
Schedule of OPEB Contributions
For the Year Ended December 31, 2018 and 2017

Last Ten Fiscal Years*

Measurement Date:	**2018**
Actuarially Determined Contribution	$ 283,520
Actual Employer Contribution	(283,520)
Contribution Deficiency (Excess)	$ -
District's covered-employee payroll	$ 7,459,193
Contributions as a percentage of covered payroll	3.80%

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

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Proportionate Share of the Net Pension Liability
This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

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

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

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

Schedule of Changes in the District's Total OPEB Liability and Related Ratios
This schedule is required by GASB Statement No. 75 and is required for all employers in a cost-sharing OPEB plan. The schedule reports the following information:

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

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

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

Supplementary Information

PALMDALE WATER DISTRICT

Schedules of Debt Service Net Revenues Coverage

For the Year Ended December 31, 2018 and 2017

Total revenues:	**2018**	**2017**
Operating revenues	$ 24,884,078	$ 23,693,095
Non-operating revenues	8,483,651	7,971,368
Capital contributions – capital improvement fees and grants	154,613	1,132,074
Total revenues	33,522,342	32,796,537
Total expenses:		
Operating expenses before depreciation expense	24,435,835	23,053,505
Non-operating expenses	5,361,162	4,776,116
Less debt service items:		
Interest expense – long-term debt	(2,405,894)	(2,175,260)
Total non-operating expenses adjusted for debt service items	2,955,268	2,600,856
	27,391,103	25,654,361
Net revenues available for debt service	$ 6,131,239	$ 7,142,176
Debt service for the fiscal year	$ 3,970,002	$ 3,650,523
Debt service net revenues coverage ratio	154%	196%

Other Independent Auditors' Report

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 as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Palmdale Water District's basic financial statements, and have issued our report thereon dated June 27, 2019.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Palmdale Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Palmdale Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Palmdale Water 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 may exist that have not been identified.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Peter Glenn, CPA | Paul J. Kaymark, CPA | Michael Klein, CPA, CMA, EA

MURRIETA OFFICE 25220 Hancock Avenue, Suite 400, Murrieta, CA 92562 • P: (951) 698-8783 • F: (951) 699-1064
OAKLAND OFFICE 333 Hegenberger Road, Suite 388, Oakland, CA 94621 • P: (844) 557-3111 • F: (844) 557-3444

www.nncpas.com • Licensed by the California Board of Accountancy

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

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
June 27, 2019