



**PALMDALE WATER DISTRICT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Years Ended
December 31, 2021 and 2020**

NIGRO & NIGRO^{PC}

PALMDALE WATER DISTRICT

For the Years Ended December 31, 2021 and 2020

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Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
Palmdale Water District
Palmdale, California

Opinion

We have audited the accompanying basic financial statements of Palmdale Water District, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Palmdale Water District as of December 31, 2021 and 2020, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated June 21, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
June 21, 2022

PALMDALE WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2021 and 2020

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, 2021 and 2020. 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 2021, the District's net position increased 3.28% or \$3,170,549 from the prior year's net position of \$96,746,459 to \$99,917,008, as a result of this year's operations.
- In 2020, the District's net position increased 3.65% or \$1,566,680 from the prior year's net position of \$95,179,779 to \$96,746,459, as a result of this year's operations.
- In 2021, the District's operating revenues increased by 10.19% or \$2,807,977 from \$27,553,220 to \$30,361,197, from the prior year, primarily due to an increase in water sales – commodity charge of \$1,362,436 and an increase in monthly meter service charges of \$1,386,643.
- In 2020, the District's operating revenues increased by 9.49% or \$2,387,572 from \$25,165,648 to \$27,553,220, from the prior year, primarily due to an increase in water sales – commodity charge of \$2,554,774.
- In 2021, the District's operating expenses before overhead absorption and depreciation expense increased by 12.69% or \$3,209,417 from \$25,282,387 to \$28,491,804, from the prior year, primarily due to an increase in source of supply – water purchases of \$2,989,503.
- In 2020, the District's operating expenses before overhead absorption and depreciation expense increased by 0.76% or \$190,491 from \$25,091,896 to \$25,282,387, from the prior year, primarily due to an increase in administration expenses of \$510,656 and finance and customer care of \$135,515.

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, 2021 and 2020. These financial statements have been prepared using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

PALMDALE WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2021 and 2020

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 \$99,917,008 and \$96,746,459 as of December 31, 2021 and 2020, 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, 2021, net position from operations increased \$3,170,549. Also, for the year ended December 31, 2020, net position from operations increased \$1,566,680.

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 2021, the total of these categories represents a increase in cash and cash equivalents of \$10,898,169, which is added to the beginning cash and cash equivalents of \$3,737,042, to arrive at ending cash and cash equivalents of \$14,635,211. For 2020, the total of these categories represents a decrease in cash and cash equivalents of \$6,329,853, which is subtracted from the beginning cash and cash equivalents of \$10,066,895, to arrive at ending cash and cash equivalents of \$3,737,042.

PALMDALE WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2021 and 2020

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Balance Sheets

	Balance, Dec. 31, 2021	Balance, Dec. 31, 2020	Change	Balance, Dec. 31, 2019	Change
Assets:					
Current assets	\$ 24,885,227	\$ 20,210,560	\$ 4,674,667	\$ 20,032,372	\$ 178,188
Non-current assets	13,232,582	4,466,060	8,766,522	6,324,308	(1,858,248)
Capital assets, net	168,167,993	166,964,871	1,203,122	162,706,256	4,258,615
Total assets	206,285,802	191,641,491	14,644,311	189,062,936	2,578,555
Deferred outflows of resources	9,072,562	9,018,550	54,012	5,101,099	3,917,451
Total assets and deferred outflows	\$ 215,358,364	\$ 200,660,041	\$ 14,698,323	\$ 194,164,035	\$ 6,496,006
Liabilities:					
Current liabilities	12,222,577	10,168,200	2,054,377	9,212,469	955,731
Non-current liabilities	88,418,833	89,145,383	(726,550)	84,670,431	4,474,952
Total liabilities	100,641,410	99,313,583	1,327,827	93,882,900	5,430,683
Deferred inflows of resources	14,799,946	4,599,999	10,199,947	5,101,356	(501,357)
Net position:					
Net investment in capital assets	111,538,623	110,142,267	1,396,356	106,542,240	3,600,027
Restricted	2,202,482	2,201,548	934	1,958,222	243,326
Unrestricted	(13,824,097)	(15,597,356)	1,773,259	(13,320,683)	(2,276,673)
Total net position	99,917,008	96,746,459	3,170,549	95,179,779	1,566,680
Total liabilities, deferred inflows and net position	\$ 215,358,364	\$ 200,660,041	\$ 14,698,323	\$ 194,164,035	\$ 6,496,006

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

The District's Net Position as of December 31, 2021 totaled \$99,917,008 compared with \$96,746,459 as of December 31, 2020, an increase of 3.28%.

The District's Net Position as of December 31, 2020 totaled \$96,746,459 compared with \$95,179,779 as of December 31, 2021, an increase of 1.65%.

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

PALMDALE WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2021 and 2020

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

	<u>Balance, Dec. 31, 2021</u>	<u>Balance, Dec. 31, 2020</u>	<u>Change</u>	<u>Balance, Dec. 31, 2019</u>	<u>Change</u>
Operating revenues	\$ 30,361,197	\$ 27,553,220	\$ 2,807,977	\$ 25,165,648	\$ 2,387,572
Operating expenses	(28,491,804)	(25,282,387)	(3,209,417)	(25,091,896)	(190,491)
Operating income before overhead absorption	<u>1,869,393</u>	<u>2,270,833</u>	<u>(401,440)</u>	<u>73,752</u>	<u>2,197,081</u>
Overhead absorption	(281,192)	557,620	(838,812)	1,049,246	(491,626)
Operating income before depreciation	<u>1,588,201</u>	<u>2,828,453</u>	<u>(1,240,252)</u>	<u>1,122,998</u>	<u>1,705,455</u>
Depreciation expense	(5,270,174)	(5,144,968)	(125,206)	(5,257,262)	112,294
Operating (loss) after depreciation	<u>(3,681,973)</u>	<u>(2,316,515)</u>	<u>(1,365,458)</u>	<u>(4,134,264)</u>	<u>1,817,749</u>
Non-operating revenues(expenses), net	1,136,186	2,647,757	(1,511,571)	2,972,460	(324,703)
Net loss before capital contributions	<u>(2,545,787)</u>	<u>331,242</u>	<u>(2,877,029)</u>	<u>(1,161,804)</u>	<u>1,493,046</u>
Capital contributions	5,716,336	1,235,438	4,480,898	633,286	602,152
Change in net position	<u>3,170,549</u>	<u>1,566,680</u>	<u>1,603,869</u>	<u>(528,518)</u>	<u>2,095,198</u>
Net position:					
Beginning of year	96,746,459	95,179,779	1,566,680	95,708,297	(528,518)
Prior period adjustment	-	-	-	-	-
End of year	<u>\$ 99,917,008</u>	<u>\$ 96,746,459</u>	<u>\$ 3,170,549</u>	<u>\$ 95,179,779</u>	<u>\$ 1,566,680</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position increased(decreased) from operations by \$3,170,549, \$1,566,680 and (\$528,518), for the years ended December 31, 2021, 2020, and 2019 respectively.

PALMDALE WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2021 and 2020

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Total Revenues

	Balance, Dec. 31, 2021	Balance, Dec. 31, 2020	Change	Balance, Dec. 31, 2019	Change
Operating revenues:					
Water sales – commodity charge	\$ 12,501,007	\$ 11,138,571	\$ 1,362,436	\$ 8,583,797	\$ 2,554,774
Water sales – wholesale	561,298	467,776	93,522	524,847	(57,071)
Monthly meter service charge	15,218,790	13,832,147	1,386,643	13,967,724	(135,577)
Water quality fees	704,782	824,429	(119,647)	760,377	64,052
Elevation fees	379,529	363,869	15,660	336,093	27,776
Other charges for services	995,791	926,428	69,363	992,810	(66,382)
Total operating revenues	30,361,197	27,553,220	2,807,977	25,165,648	2,387,572
Non-operating:					
Property taxes – ad valorem	1,660,944	1,678,388	(17,444)	1,783,332	(104,944)
Property tax assessment for State Water Project	5,179,076	5,194,911	(15,835)	4,790,480	404,431
Successor agency component of property taxes	840,880	731,045	109,835	724,595	6,450
Rental revenue – cellular towers	18,012	15,394	2,618	24,059	(8,665)
Investment earnings	(1,067)	170,760	(171,827)	451,831	(281,071)
Change in investment – PRWA	934	243,326	(242,392)	289,932	(46,606)
Legal and insurance refunds/settlements	61,746	2,491	59,255	54,050	(51,559)
Department of Water Resources – FCR	368,950	299,879	69,071	247,469	52,410
Other non-operating revenues	87,839	42,971	44,868	71,953	(28,982)
Total non-operating	8,217,314	8,379,165	(161,851)	8,437,701	(58,536)
Total revenues	\$ 38,578,511	\$ 35,932,385	\$ 2,646,126	\$ 33,603,349	\$ 2,329,036

In 2021, the District's operating revenues increased by 10.19% or \$2,807,977 from \$27,553,220 to \$30,361,197, from the prior year, primarily due to an increase in water sales – commodity charge of \$1,362,436 and an increase in monthly meter service charges of \$1,386,643.

In 2020, the District's operating revenues increased by 9.49% or \$2,387,572 from \$25,165,648 to \$27,553,220, from the prior year, primarily due to an increase in water sales – commodity charge of \$2,554,774

PALMDALE WATER DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2021 and 2020

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Total Expenses

	Balance, Dec. 31, 2021	Balance, Dec. 31, 2020	Change	Balance, Dec. 31, 2019	Change
Operating expenses:					
Source of supply – water purchases	\$ 5,285,018	\$ 2,295,515	\$ 2,989,503	\$ 2,579,380	\$ (283,865)
Operations and production	3,533,551	3,542,182	(8,631)	3,671,450	(129,268)
Facilities	7,484,342	7,463,258	21,084	7,249,738	213,520
Engineering	1,670,042	1,836,486	(166,444)	1,985,475	(148,989)
Water conservation	381,068	373,612	7,456	480,690	(107,078)
Administration	6,760,997	6,598,878	162,119	6,088,222	510,656
Finance and customer care	3,376,786	3,172,456	204,330	3,036,941	135,515
Operating expenses before overhead absorption	28,491,804	25,282,387	3,209,417	25,091,896	190,491
Overhead absorption	281,192	(557,620)	838,812	(1,049,246)	491,626
Operating expenses before depreciation	28,772,996	24,724,767	4,048,229	24,042,650	682,117
Depreciation	5,270,174	5,144,968	125,206	5,257,262	(112,294)
Total operating expenses	34,043,170	29,869,735	4,173,435	29,299,912	569,823
Non-operating expenses:					
Cost of debt issuance	333,796	398,953	(65,157)	-	398,953
State Water Project amortization expense	4,222,272	2,854,227	1,368,045	2,854,227	-
Interest expense – long-term debt	2,525,060	2,478,228	46,832	2,611,014	(132,786)
Total non-operating	7,081,128	5,731,408	1,349,720	5,465,241	266,167
Total expenses	\$ 41,124,298	\$ 35,601,143	\$ 5,523,155	\$ 34,765,153	\$ 835,990

In 2021, the District's operating expenses before overhead absorption and depreciation expense increased by 12.69% or \$3,209,417 from \$25,282,387 to \$28,491,804, from the prior year, primarily due to an increase in source of supply – water purchases of \$2,989,503.

In 2020, the District's operating expenses before overhead absorption and depreciation expense increased by 0.76% or \$190,491 from \$25,091,896 to \$25,282,387, from the prior year, primarily due to an increase in administration expenses of \$510,656 and finance and customer care of \$135,515.

PALMDALE WATER DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended December 31, 2021 and 2020

CAPITAL ASSETS

At the end of 2021, 2020 and 2019, the District's investment in capital assets was \$168,167,993, \$166,964,871, and \$162,706,256, net of accumulated depreciation, respectively. Capital asset additions during the years ended December 31, 2021 and 2020 were \$5,006,246 and \$7,019,603, 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 \$5.2 million and \$5.1 million as of December 31, 2021 and 2020, respectively.

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

Capital assets:	Balance, Dec. 31, 2021	Balance, Dec. 31, 2020	Balance, Dec. 31, 2019
Non-depreciable assets	\$ 10,995,185	\$ 25,856,069	\$ 20,107,192
Depreciable assets	347,561,242	322,008,332	315,711,756
Accumulated depreciation	<u>(190,388,434)</u>	<u>(180,899,530)</u>	<u>(173,112,692)</u>
Total capital assets, net	<u>\$ 168,167,993</u>	<u>\$ 166,964,871</u>	<u>\$ 162,706,256</u>

LONG-TERM DEBT

At year-end the District had \$71.7 million in capital leases, loan payables, and revenue bonds payables – an increase(decrease) of \$9,009,737 \$160,321 in 2021 and 2020 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, Dec. 31, 2021	Balance, Dec. 31, 2020	Balance, Dec. 31, 2019
Capital leases payable	\$ 88,250	\$ 175,290	\$ 429,317
Loan payable – 2012	2,643,024	3,904,026	5,128,609
Revenue bonds payable, net – 2013	11,056,295	21,253,423	43,110,553
Revenue bonds payable, net – 2018	13,795,973	13,833,019	13,870,063
Revenue refunding bonds – non-taxable – 2020	8,965,604	8,978,105	-
Revenue refunding bonds – taxable – 2020	14,355,000	14,555,000	-
Revenue bonds – 2021A	10,255,124	-	-
Revenue refunding bonds – 2021	<u>10,549,330</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 71,708,600</u>	<u>\$ 62,698,863</u>	<u>\$ 62,538,542</u>

PALMDALE WATER DISTRICT

*Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2021 and 2020*

CONDITIONS AFFECTING CURRENT FINANCIAL POSITION

- The District continued to see a good water usage trend for 2021. The District's customers continue to change their water habits after being required to meet the mandatory drought restrictions back in 2016.
- Billed water consumption for the year ended December 31, 2021 was at 17,984-acre feet compared to 17,213-acre feet for the year ended December 31, 2020.
- The District's assessed valuation has increased to \$2.15 billion for FY 2020/2021 from \$2.02 billion for FY 2019/2020.
- The District received \$1.660 million in ad valorem property tax revenue for 2021.
- The District received \$840,880 in successor agency component property taxes for 2021.

OTHER FACTORS AFFECTING THE DISTRICT'S FUTURE FINANCIAL POSITION

At the end of the first quarter of calendar year 2020, the United States and global economy suffered a major decline due to the impact of the COVID-19 virus. This economic decline may affect the District's operations and investment earnings for the remainder of calendar year 2022 and beyond. However, the potential impact to the District is unknown at this time.

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, 2021 and 2020*

ASSETS	2021	2020
Current assets:		
Cash and cash equivalents (Note 2)	\$ 3,605,111	\$ 1,472,530
Investments (Note 2)	10,978,339	10,264,065
Accrued interest receivable	32,152	37,826
Accounts receivable – water sales and services, net (Note 3)	2,604,798	2,303,977
Accounts receivable – property taxes and assessments	4,374,275	4,340,553
Accounts receivable – other	581,268	66,464
Materials and supplies inventory	1,894,031	1,068,101
Prepaid expenses	815,253	657,044
Total current assets	24,885,227	20,210,560
Non-current assets:		
Restricted – cash and cash equivalents (Note 2)	11,030,100	2,264,512
Investment in Palmdale Recycled Water Authority (Note 4)	2,202,482	2,201,548
Capital assets – not being depreciated (Note 5)	10,995,185	25,856,069
Capital assets – being depreciated, net (Note 5)	157,172,808	141,108,802
Total non-current assets	181,400,575	171,430,931
Total assets	206,285,802	191,641,491
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt defeasance, net (Note 7)	4,049,130	3,611,747
Deferred amounts related to net OPEB obligation (Note 8)	3,245,025	3,350,850
Deferred amounts related to net pension liability (Note 9)	1,778,407	2,055,953
Total deferred outflows of resources	9,072,562	9,018,550
Total assets and deferred outflows of resources	\$ 215,358,364	\$ 200,660,041

PALMDALE WATER DISTRICT
Balance Sheets (continued)
December 31, 2021 and 2020

LIABILITIES	<u>2021</u>	<u>2020</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,758,161	\$ 2,298,008
Customer deposits for water service	3,488,304	3,449,294
Construction and developer deposits	1,641,078	1,609,382
Accrued interest payable	561,941	513,145
Long-term liabilities – due within one year:		
Compensated absences (Note 6)	168,704	172,828
Capital lease payable (Note 7)	88,250	87,040
Loan payable (Note 7)	1,300,396	1,261,002
Revenue bonds payable (Note 7)	1,215,743	777,501
Total current liabilities	<u>12,222,577</u>	<u>10,168,200</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 6)	506,112	518,485
Capital lease payable (Note 7)	-	88,250
Loan payable (Note 7)	1,342,628	2,643,024
Revenue bonds payable, net (Note 7)	67,761,583	57,842,046
Net other post-employment benefits obligation (Note 8)	12,751,874	16,479,807
Net pension liability (Note 9)	6,056,636	11,573,771
Total non-current liabilities	<u>88,418,833</u>	<u>89,145,383</u>
Total liabilities	<u>100,641,410</u>	<u>99,313,583</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned property taxes and assessments	4,100,000	3,300,000
Deferred amounts related to net OPEB obligation (Note 8)	5,201,829	1,035,319
Deferred amounts related to net pension liability (Note 9)	5,498,117	264,680
Total deferred inflows of resources	<u>14,799,946</u>	<u>4,599,999</u>
NET POSITION		
Net investment in capital assets (Note 10)	111,538,623	110,142,267
Restricted – Palmdale Recycled Water Authority (Note 4)	2,202,482	2,201,548
Unrestricted (Deficit) (Note 11)	<u>(13,824,097)</u>	<u>(15,597,356)</u>
Total net position	<u>99,917,008</u>	<u>96,746,459</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 215,358,364</u>	<u>\$ 200,660,041</u>

PALMDALE WATER DISTRICT*Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2021 and 2020*

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Water sales – commodity charge	\$ 12,501,007	\$ 11,138,571
Water sales – wholesale	561,298	467,776
Monthly meter service charge	15,218,790	13,832,147
Water quality fees	704,782	824,429
Elevation fees	379,529	363,869
Other charges for services	995,791	926,428
Total operating revenues	<u>30,361,197</u>	<u>27,553,220</u>
Operating expenses:		
Source of supply – water purchases	5,285,018	2,295,515
Operations and production	3,533,551	3,542,182
Facilities	7,484,342	7,463,258
Engineering	1,670,042	1,836,486
Water conservation	381,068	373,612
Administration	6,760,997	6,598,878
Finance and customer care	3,376,786	3,172,456
Total operating expenses	<u>28,491,804</u>	<u>25,282,387</u>
Operating income before overhead absorption	1,869,393	2,270,833
Overhead absorption	<u>(281,192)</u>	<u>557,620</u>
Operating income before depreciation expense	1,588,201	2,828,453
Depreciation expense (Note 5)	<u>(5,270,174)</u>	<u>(5,144,968)</u>
Operating (loss)	<u>(3,681,973)</u>	<u>(2,316,515)</u>
Non-operating revenues(expenses):		
Property taxes – ad valorem	1,660,944	1,678,388
Property tax assessment for State Water Project	5,179,076	5,194,911
Successor agency component of property taxes	840,880	731,045
Rental revenue – cellular towers	18,012	15,394
Investment earnings	(1,067)	170,760
Changes in investment – Palmdale Recycled Water Authority (Note 4)	934	243,326
Legal and insurance refunds/settlements	61,746	2,491
Department of Water Resources – fixed charge recovery	368,950	299,879
Other non-operating revenues	87,839	42,971
Cost of debt issuance (Note 7)	(333,796)	(398,953)
State Water Project amortization expense (Note 5)	(4,222,272)	(2,854,227)
Interest expense – long-term debt	<u>(2,525,060)</u>	<u>(2,478,228)</u>
Total non-operating revenue(expense), net	<u>1,136,186</u>	<u>2,647,757</u>
Net (loss) before capital contributions	<u>(2,545,787)</u>	<u>331,242</u>
Capital contributions:		
Capital improvement fees	5,247,538	1,235,438
Federal and state capital grants	468,798	-
Total capital contributions	<u>5,716,336</u>	<u>1,235,438</u>
Change in net position	3,170,549	1,566,680
Net position:		
Beginning of year	<u>96,746,459</u>	<u>95,179,779</u>
End of year	<u>\$ 99,917,008</u>	<u>\$ 96,746,459</u>

The notes to financial statements are an integral part of this statement.

PALMDALE WATER DISTRICT*Statements of Cash Flows**For the Years Ended December 31, 2021 and 2020*

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash receipts from water sales and services	\$ 30,131,082	\$ 26,989,554
Cash receipts from others	21,743	305,773
Cash paid to employees for salaries and wages	(9,492,550)	(9,160,656)
Cash paid to vendors and suppliers for materials and services	<u>(18,001,487)</u>	<u>(13,701,317)</u>
Net cash provided by operating activities	<u>2,658,788</u>	<u>4,433,354</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes	3,268,102	2,323,424
Proceeds from property tax assessment for State Water Project	5,179,076	5,194,911
Acquisition of State Water Project participation rights	<u>(5,689,322)</u>	<u>(5,238,207)</u>
Net cash provided by non-capital financing activities	<u>2,757,856</u>	<u>2,280,128</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(5,006,246)	(7,019,603)
Proceeds from capital improvement fees and capital grants	5,716,336	1,235,438
Proceeds from issuance of revenue refunding bonds	20,816,639	23,563,523
Purchase of state and local government securities (SLGS) for refunding	(9,530,000)	(22,544,033)
Cost of debt issuance	(333,796)	(398,953)
Principal paid on long-term debt	(2,125,543)	(2,044,028)
Interest paid on long-term debt	<u>(2,324,905)</u>	<u>(2,461,438)</u>
Net cash provided by (used in) capital and related financing activities	<u>7,212,485</u>	<u>(9,669,094)</u>
Cash flows from investing activities:		
Purchase of investments	(7,981,649)	(14,609,797)
Sales of investments	6,123,795	11,081,930
Investment earnings	<u>126,894</u>	<u>153,626</u>
Net cash used in investing activities	<u>(1,730,960)</u>	<u>(3,374,241)</u>
Net increase (decrease) in cash and cash equivalents	10,898,169	(6,329,853)
Cash and cash equivalents:		
Beginning of year	<u>3,737,042</u>	<u>10,066,895</u>
End of year	<u>\$ 14,635,211</u>	<u>\$ 3,737,042</u>
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents	\$ 3,605,111	\$ 1,472,530
Restricted assets – cash and cash equivalents	<u>11,030,100</u>	<u>2,264,512</u>
Total cash and cash equivalents	<u>\$ 14,635,211</u>	<u>\$ 3,737,042</u>

PALMDALE WATER DISTRICT
Statements of Cash Flows (continued)
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	\$ (3,681,973)	\$ (2,316,515)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	5,270,174	5,144,968
Overhead absorption	281,192	(557,620)
Rental revenue – cellular towers	18,012	15,394
Legal and insurance refunds/settlements	61,746	2,491
Department of Water Resources – fixed charge recovery	368,950	299,879
Other non-operating revenues	87,839	42,971
Change in assets – (increase)decrease:		
Accounts receivable – water sales and services, net	(300,821)	(602,229)
Accounts receivable – other	(514,804)	(54,962)
Materials and supplies inventory	(825,930)	(47,514)
Prepaid expenses	(158,209)	(70,754)
Change in deferred outflows of resources – (increase)decrease		
Deferred amounts related to net OPEB obligation	105,825	(2,490,728)
Deferred amounts related to net pension liability	277,546	176,584
Change in liabilities – increase(decrease):		
Accounts payable and accrued expenses	1,460,153	803,054
Customer deposits for water service	39,010	57,596
Construction and developer deposits	31,696	(19,033)
Compensated absences	(16,497)	154,870
Net other post-employment benefits obligation	(3,727,933)	3,513,826
Net pension liability	(5,517,135)	882,433
Change in deferred inflows of resources – increase(decrease)		
Deferred amounts related to net OPEB obligation	4,166,510	(152,253)
Deferred amounts related to net pension liability	5,233,437	(349,104)
Total adjustments	<u>6,340,761</u>	<u>6,749,869</u>
Net cash provided by operating activities	<u>\$ 2,658,788</u>	<u>\$ 4,433,354</u>
Non-cash investing, capital and financing transactions:	2021	2020
Change in fair-value of investments	<u>\$ (122,287)</u>	<u>\$ 15,891</u>
Amortization of deferred amount on debt defeasance	<u>\$ (192,583)</u>	<u>\$ (156,693)</u>
Deferred amount on debt defeasance	<u>\$ 1,795,890</u>	<u>\$ 1,795,890</u>
Amortization of net premium(discount) on revenue bonds	<u>\$ 151,359</u>	<u>\$ 139,174</u>
Changes in investment – Palmdale Recycled Water Authority	<u>\$ 934</u>	<u>\$ 243,326</u>

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

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

B. Reporting Entity

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

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

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

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

C. Basis of Presentation, Basis of Accounting

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

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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

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

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

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

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

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

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

1. Cash and Cash Equivalents

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

2. Investments

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

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

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

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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

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

2. Investments (continued)

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

3. Allowance for Doubtful Accounts

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

4. Prepays

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:

<u>Description</u>	<u>Estimated Lives</u>
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.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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)

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.

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 currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at the CalPERS's website.

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

<u>CalPERS</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Valuation Date	June 30, 2020	June 30, 2019
Measurement Date	June 30, 2021	June 30, 2020
Measurement Period	July 1, 2020 to June 30, 2021	July 1, 2019 to June 30, 2020

11. Postemployment Benefits Other Than Pensions (OPEB)

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

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

<u>OPEB</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Valuation Date	December 31, 2020	December 31, 2019
Measurement Date	December 31, 2021	December 31, 2020
Measurement Period	Jan. 1, 2021 to Dec. 31, 2021	Jan. 1, 2020 to Dec. 31, 2020

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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

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

12. Net Position

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

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

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

E. Property Taxes

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

F. Water Sales

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

G. Capital Improvement Fees

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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

H. Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

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

Description	Balance, Dec. 31, 2021	Balance, Dec. 31, 2020
Cash and cash equivalents	\$ 3,605,111	\$ 1,472,530
Investments	10,978,339	10,264,065
Restricted – cash and cash equivalents	11,030,100	2,264,512
Total	\$ 25,613,550	\$ 14,001,107

Cash and investments consisted of the following:

Description	Balance, Dec. 31, 2021	Balance, Dec. 31, 2020
Cash on hand	\$ 5,700	\$ 5,700
Demand deposits held with financial institutions	2,059,109	735,924
Local Agency Investment Fund (LAIF)	12,693	12,641
Money-market funds	1,527,609	718,265
Money-market funds – restricted	11,030,100	2,264,512
Investments	10,978,339	10,264,065
Total	\$ 25,613,550	\$ 14,001,107

The table on the following page 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.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 2 – CASH AND INVESTMENTS (continued)

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.

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

Investments Authorized by Debt Agreements

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

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

Demand Deposits with Financial Institutions

At December 31, 2021 and 2020, the carrying amount of the District's demand deposits were \$2,059,109 and \$735,924, respectively, and the financial institution's balance were \$1,948,795 and \$948,472, 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.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 2 – CASH AND INVESTMENTS (continued)

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, 2021, the District held \$1,527,609 in unrestricted money-market funds and \$11,030,100 in restricted money-market funds. As of December 31, 2020, the District held \$718,265 in unrestricted money-market funds and \$42,264,512 in restricted money-market funds.

Local Agency Investment Fund (LAIF)

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

The District is a voluntary participant in LAIF. The fair value of the District's investment in this pool is reported at an amount based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis and it is Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of December 31, 2021, and 2020, the District held \$12,693 \$12,641 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, 2021, consisted of the following:

Type of Investments	Measurement Input	Credit Rating	Fair Value	Maturity	
				12 Months or Less	13 to 24 Months
U.S. Treasury notes	Level 1	Exempt	\$ 6,521,620	\$ 6,521,620	\$ -
Certificates-of-deposit	Level 1	Not Rated	4,456,719	3,958,074	498,645
Total investments			\$ 10,978,339	\$ 10,479,694	\$ 498,645

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments (continued)

Investment maturities and credit ratings as of December 31, 2020, consisted of the following:

Type of Investments	Measurement Input	Credit Rating	Fair Value	Maturity
				12 Months or Less
U.S. Treasury notes	Level 1	Exempt	\$ 6,820,493	\$ 6,820,493
Certificates-of-deposit	Level 1	Not Rated	<u>3,443,572</u>	<u>3,443,572</u>
Total investments			<u>\$ 10,264,065</u>	<u>\$ 10,264,065</u>

Investments – Interest Rate Risk

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

Investments – Credit Risk

The District's investment policy limits investment choices to investment securities allowed by the California Government Code. At December 31, 2021 and 2020, 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, 2021 and 2020, 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, 2021, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Investments
U.S. Treasury note - March 15, 2022	\$ 2,009,020	18.30%
U.S. Treasury note - March 31, 2022	1,003,960	9.14%
U.S. Treasury note - June 30, 2022	756,975	6.90%
U.S. Treasury note - September 15, 2022	756,420	6.89%
U.S. Treasury note - November 30, 2022	<u>997,730</u>	<u>9.09%</u>
Total	<u>\$ 5,524,105</u>	<u>50.32%</u>

Investments greater than 5% for the year ended December 31, 2020, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Investments
U.S. Treasury note - January 15, 2021	\$ 1,547,772	14.10%
U.S. Treasury note - March 31, 2021	1,437,164	13.09%
U.S. Treasury note - May 31, 2021	1,206,192	10.99%
U.S. Treasury note - June 17, 2021	1,999,240	18.21%
U.S. Treasury note - August 15, 2021	<u>630,125</u>	<u>5.74%</u>
Total	<u>\$ 6,820,493</u>	<u>66.45%</u>

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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

The balances consisted of the following:

Description	Balance, Dec. 31, 2021	Balance, Dec. 31, 2020
Accounts receivable – water sales and services	\$ 2,640,368	\$ 2,339,547
Allowance for doubtful accounts	<u>(35,570)</u>	<u>(35,570)</u>
Accounts receivable – water sales and services, net	<u>\$ 2,604,798</u>	<u>\$ 2,303,977</u>

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 2021, the District reports its equity interest as of the date of the last audited financial statements of the Authority as of December 31, 2021, which was audited by our firm, whose report dated June 15, 2021 expressed an unmodified opinion on those financial statements.

For 2020, the District reports its equity interest as of the date of the last audited financial statements of the Authority as of December 31, 2020, which was audited by our firm, whose report dated June 15, 2021 expressed an unmodified opinion on those financial statements.

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

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, 2021:

Palmdale Recycled Water Authority
Condensed Balance Sheet
December 31, 2021

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
Assets:			
Total assets	\$ 4,472,212	\$ 2,236,106	\$ 2,236,106
Liabilities:			
Total liabilities	67,248	33,624	33,624
Net position:			
Total net position	4,404,964	2,202,482	2,202,482
Total liabilities and net position	\$ 4,472,212	\$ 2,236,106	\$ 2,236,106

Palmdale Recycled Water Authority
Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2021

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
Operating revenues:			
Total operating revenues	\$ 136,495	\$ 68,248	\$ 68,248
Operating expenses:			
Total operating expenses	135,262	67,631	67,631
Operating income	1,233	617	617
Non-operating revenues:			
Total non-operating revenue	635	318	318
Change in net position	1,868	934	934
Net position:			
Beginning of year	4,403,096	2,201,548	2,201,548
End of year	\$ 4,404,964	\$ 2,202,482	\$ 2,202,482

Palmdale Recycled Water Authority
Condensed Statement of Cash Flows
For the Year Ended December 31, 2021

	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
Cash flows from operating activities:			
Net cash provided by operating activities	\$ 65,107	\$ 32,554	\$ 32,554
Cash flows from investing activities:			
Net cash used in investing activities	(166,028)	(83,014)	(83,014)
Net increase in cash and cash equivalents	(100,921)	(50,461)	(50,461)
Cash and cash equivalents:			
Beginning of year	993,851	496,926	496,926
End of year	\$ 892,930	\$ 446,465	\$ 446,465
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 1,233	\$ 617	\$ 617
Depreciation	53,407	26,704	26,704
Change in assets	(11,695)	(5,848)	(5,848)
Change in liabilities	22,162	11,081	11,081
Net cash provided by operating activities	\$ 65,107	\$ 32,554	\$ 32,554

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

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, 2020:

Palmdale Recycled Water Authority			
Condensed Balance Sheet			
December 31, 2020			
	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
Assets:			
Total assets	<u>\$ 4,448,182</u>	<u>\$ 2,224,091</u>	<u>\$ 2,224,091</u>
Liabilities:			
Total liabilities	<u>45,086</u>	<u>22,543</u>	<u>22,543</u>
Net position:			
Total net position	<u>4,403,096</u>	<u>2,201,548</u>	<u>2,201,548</u>
Total liabilities and net position	<u>\$ 4,448,182</u>	<u>\$ 2,224,091</u>	<u>\$ 2,224,091</u>

Palmdale Recycled Water Authority			
Condensed Statement of Revenues, Expenses and Changes in Net Position			
For the Year Ended December 31, 2020			
	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
Operating revenues:			
Total operating revenues	<u>\$ 656,993</u>	<u>\$ 328,496</u>	<u>\$ 328,497</u>
Operating expenses:			
Total operating expenses	<u>182,155</u>	<u>91,077</u>	<u>91,078</u>
Operating income	<u>474,838</u>	<u>237,419</u>	<u>237,419</u>
Non-operating revenues:			
Total non-operating revenue	<u>11,814</u>	<u>5,907</u>	<u>5,907</u>
Change in net position	<u>486,652</u>	<u>243,326</u>	<u>243,326</u>
Net position:			
Beginning of year	<u>3,916,444</u>	<u>1,958,222</u>	<u>1,958,222</u>
End of year	<u>\$ 4,403,096</u>	<u>\$ 2,201,548</u>	<u>\$ 2,201,548</u>

Palmdale Recycled Water Authority			
Condensed Statement of Cash Flows			
For the Year Ended December 31, 2020			
	<u>Audited Total</u>	<u>City of Palmdale 50% Share</u>	<u>District 50% Share</u>
Cash flows from operating activities:			
Net cash provided by operating activities	<u>\$ 565,905</u>	<u>\$ 282,952</u>	<u>\$ 282,953</u>
Cash flows from investing activities:			
Net cash used in investing activities	<u>(127,160)</u>	<u>(63,580)</u>	<u>(63,580)</u>
Net increase in cash and cash equivalents	<u>438,745</u>	<u>219,372</u>	<u>219,373</u>
Cash and cash equivalents:			
Beginning of year	<u>555,106</u>	<u>277,553</u>	<u>277,553</u>
End of year	<u>\$ 993,851</u>	<u>\$ 496,925</u>	<u>\$ 496,926</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 474,838</u>	<u>\$ 237,419</u>	<u>\$ 237,419</u>
Depreciation	<u>53,407</u>	<u>26,703</u>	<u>26,704</u>
Change in assets	<u>5,556</u>	<u>2,778</u>	<u>2,778</u>
Change in liabilities	<u>32,104</u>	<u>16,052</u>	<u>16,052</u>
Net cash provided by operating activities	<u>\$ 565,905</u>	<u>\$ 282,952</u>	<u>\$ 282,953</u>

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended December 31, 2021, was as follows:

Description	Balance, Jan. 1, 2021	Additions	Deletions/ Transfers	Balance, Dec. 31, 2021
Non-depreciable assets:				
Land and land rights	\$ 1,796,367	\$ 13,310	\$ -	\$ 1,809,677
Construction-in-process	24,059,702	3,024,929	(17,899,123)	9,185,508
Total non-depreciable assets	25,856,069	3,038,239	(17,899,123)	10,995,185
Depreciable assets:				
Buildings, wells and distribution system	220,279,706	19,596,099	(3,542)	239,872,263
SWP – participation rights	90,054,715	5,689,322	-	95,744,037
Machinery and equipment	11,673,911	271,031	-	11,944,942
Total depreciable assets	322,008,332	25,556,452	(3,542)	347,561,242
Accumulated depreciation:				
Buildings, wells and distribution system	(132,409,042)	(4,938,054)	3,542	(137,343,554)
SWP – participation rights	(37,474,000)	(4,222,272)	-	(41,696,272)
Machinery and equipment	(11,016,488)	(332,120)	-	(11,348,608)
Total accumulated depreciation	(180,899,530)	(9,492,446)	3,542	(190,388,434)
Total depreciable assets, net	141,108,802	16,064,006	-	157,172,808
Total capital assets, net	\$ 166,964,871	\$ 19,102,245	\$ (17,899,123)	\$ 168,167,993

Capital asset activity for the year ended December 31, 2020, was as follows:

Description	Balance, Jan. 1, 2020	Additions	Deletions/ Transfers	Balance, Dec. 31, 2020
Non-depreciable assets:				
Land and land rights	\$ 1,796,367	\$ -	\$ -	\$ 1,796,367
Construction-in-process	18,310,825	7,019,603	(1,270,726)	24,059,702
Total non-depreciable assets	20,107,192	7,019,603	(1,270,726)	25,856,069
Depreciable assets:				
Buildings, wells and distribution system	219,371,188	917,340	(8,822)	220,279,706
SWP – participation rights	84,816,508	5,238,207	-	90,054,715
Machinery and equipment	11,524,060	353,386	(203,535)	11,673,911
Total depreciable assets	315,711,756	6,508,933	(212,357)	322,008,332
Accumulated depreciation:				
Buildings, wells and distribution system	(127,571,953)	(4,845,911)	8,822	(132,409,042)
SWP – participation rights	(34,619,773)	(2,854,227)	-	(37,474,000)
Machinery and equipment	(10,920,966)	(299,057)	203,535	(11,016,488)
Total accumulated depreciation	(173,112,692)	(7,999,195)	212,357	(180,899,530)
Total depreciable assets, net	142,599,064	(1,490,262)	-	141,108,802
Total capital assets, net	\$ 162,706,256	\$ 5,529,341	\$ (1,270,726)	\$ 166,964,871

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (continued)

Construction-In-Process

The balance consists of the following projects:

Project Description	Balance	Balance	Balance
	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2021
Sediment removal - Littlerock Dam	\$ 4,149,560	\$ 4,366,255	\$ -
Palmdale Regional Groundwater Recharge Project	3,840,670	4,179,778	4,209,279
Grade control structure – Littlerock Dam	8,789,902	10,697,276	-
2020 Meter Exchange Project	-	9,044	294,302
2950 Zone Booster @3M Clearwell	-	31,400	163,032
Upper Armagosa Creek project	382,402	2,127,355	2,127,355
45th St Tank Site - Altitude Valve Replacement	123,584	123,584	127,466
Well 36- Construction	-	19,180	265,377
Well 14- Rehabilitation	-	-	145,816
Design and remodel District offices	-	595,268	-
Spec 1601-ML Replacement Avenue P/25th	61,978	432,350	-
Spec 1504-ML Replacement Avenue V5	40,433	302,306	-
Well 7 - Rehabilitation	-	206,800	-
2020 Large Meter/Vault Replacement Program	25,028	203,602	-
2021 Large Meter/Vault Replacement Program	-	-	276,153
Sierra Hwy Tie-in @ Harold St	-	14,908	709,889
Various other minor projects <\$100,000	897,268	750,596	866,839
Total construction-in-process	\$ 18,271,659	\$ 24,059,702	\$ 9,185,508

State Water Project – Participation Rights

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

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

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

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

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (continued)

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

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

NOTE 6 – COMPENSATED ABSENCES

Summary changes to compensated absences balances for the year ended December 31, 2021, were as follows:

Balance, Jan. 1, 2021	Additions	Deletions	Balance, Dec. 31, 2021	Due Within One Year	Due in More Than One Year
\$ 691,313	\$ 673,944	\$ (690,441)	\$ 674,816	\$ 168,704	\$ 506,112

Summary changes to compensated absences balances for the year ended December 31, 2020, were as follows:

Balance, Jan. 1, 2020	Additions	Deletions	Balance, Dec. 31, 2020	Due Within One Year	Due in More Than One Year
\$ 536,443	\$ 681,447	\$ (526,577)	\$ 691,313	\$ 172,828	\$ 518,485

NOTE 7 – LONG-TERM DEBT

Changes in long-term debt for the year ended December 31, 2021, were as follows:

Long-Term Debt	Balance, Jan. 1, 2021	Additions/ Adjustments	Payments/ Amortization	Balance, Dec. 31, 2021	Current Portion	Non-Current Portion
Capital lease payable - 2017	\$ 175,290	\$ -	\$ (87,040)	\$ 88,250	\$ 88,250	\$ -
Loan payable - 2012	3,904,026	-	(1,261,002)	2,643,024	1,300,396	1,342,628
Revenue bonds payable - 2013	18,930,000	(9,530,000)	(565,000)	8,835,000	595,000	8,240,000
Revenue bonds payable - discount	(97,842)	-	4,301	(93,541)	-	(93,541)
Revenue bonds payable - premium	2,421,265	-	(106,429)	2,314,836	-	2,314,836
Revenue bonds payable, net - 2013	21,253,423	(9,530,000)	(667,128)	11,056,295	595,000	10,461,295
Revenue bonds payable - 2018	12,805,000	-	-	12,805,000	250,000	12,555,000
Revenue bonds payable - premium	1,028,019	-	(37,046)	990,973	-	990,973
Revenue bonds payable, net - 2018	13,833,019	-	(37,046)	13,795,973	250,000	13,545,973
Revenue refunding bonds - non-taxable - 2020	8,978,105	-	(12,501)	8,965,604	12,913	8,952,691
Revenue refunding bonds - taxable - 2020	14,555,000	-	(200,000)	14,355,000	165,000	14,190,000
Revenue refunding bonds - 2020	23,533,105	-	(212,501)	23,320,604	177,913	23,142,691
Revenue bonds - 2021A	-	9,390,000	-	9,390,000	-	9,390,000
Revenue refunding bonds - 2021	-	10,549,330	-	10,549,330	192,830	10,356,500
Revenue bonds payable - premium	-	877,309	(12,185)	865,124	-	865,124
Revenue bonds payable, net - 2021	-	20,816,639	(12,185)	20,804,454	192,830	20,611,624
Total long-term debt	\$ 62,698,863	\$ 11,286,639	\$ (2,264,717)	\$ 71,708,600	\$ 2,604,389	\$ 69,104,211

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 7 – LONG-TERM DEBT (continued)

Changes in long-term debt for the year ended December 31, 2020, were as follows:

Long-Term Debt	Balance, Jan. 1, 2020	Additions/ Adjustments	Payments/ Amortization	Balance, Dec. 31, 2020	Current Portion	Non-Current Portion
Capital lease payable – 2017	\$ 429,317	\$ -	\$ (254,027)	\$ 175,290	\$ 87,040	\$ 88,250
Loan payable – 2012	5,128,609	-	(1,224,583)	3,904,026	1,261,002	2,643,024
Revenue bonds payable – 2013	40,685,000	(21,220,000)	(535,000)	18,930,000	565,000	18,365,000
Revenue bonds payable – discount	(102,142)	-	4,300	(97,842)	-	(97,842)
Revenue bonds payable – premium	2,527,695	-	(106,430)	2,421,265	-	2,421,265
Revenue bonds payable, net – 2013	43,110,553	(21,220,000)	(637,130)	21,253,423	565,000	20,688,423
Revenue bonds payable - 2018	12,805,000	-	-	12,805,000	-	12,805,000
Revenue bonds payable - premium	1,065,063	-	(37,044)	1,028,019	-	1,028,019
Revenue bonds payable, net - 2018	13,870,063	-	(37,044)	13,833,019	-	13,833,019
Revenue refunding bonds - non-taxable - 2020	-	9,008,523	(30,418)	8,978,105	12,501	8,965,604
Revenue refunding bonds - taxable - 2020	-	14,555,000	-	14,555,000	200,000	14,355,000
Revenue refunding bonds - 2020	-	23,563,523	(30,418)	23,533,105	212,501	23,320,604
Total long-term debt	\$ 62,538,542	\$ 2,343,523	\$ (2,183,202)	\$ 62,698,863	\$ 2,125,543	\$ 60,573,320

A. Capital Lease Payable – 2017

On January 18, 2019, 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 \$89,477 are due every six months beginning in July, 2017 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
2022	88,250	1,227	89,477
Total	88,250	\$ 1,227	\$ 89,477

B. Loan Payable – 2012

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

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

The advance refunding resulted in a difference between the reacquisition price and the net carrying value amount of the old debt of \$846,845. This difference is being amortized through 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.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 7 – LONG-TERM DEBT (continued)

B. Loan Payable – 2012 (continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	1,300,396	71,933	1,372,329
2023	1,342,628	31,296	1,373,918
Total	2,643,024	\$ 103,229	\$ 2,746,247
Less: current	<u>(1,300,396)</u>		
Total non-current	<u>\$ 1,342,628</u>		

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 advanced 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 in case of default; (iv) to purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund; and (v) to pay the costs of issuing the Bonds-2013. The District has pledged 100% of its water revenues to collateralize the debt.

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

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

In 2020, the District advanced refunded \$21,220,000 of debt service payments from 2031 to 2043 by issuing a non-taxable and a taxable issue.

In 2021, the District advanced refunded \$9,530,000 of debt service payments from 2025 to 2028 by issuing a bond.

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2021 and 2020***NOTE 7 – LONG-TERM DEBT (continued)****C. Revenue Bonds Payable (continued)**

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	595,000	298,388	893,388
2023	620,000	271,300	891,300
2024	2,145,000	240,638	2,385,638
2025	-	191,625	191,625
2026	-	191,625	191,625
2027-2030	5,475,000	624,443	6,099,443
Total	8,835,000	<u>\$ 1,818,019</u>	<u>\$ 10,653,019</u>
Less: current	<u>(595,000)</u>		
Total non-current	<u>\$ 8,240,000</u>		

Deferred Amount on Debt Defeasance, Net

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2021, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2021</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2021</u>
Deferred amount on debt defeasance, net	<u>\$ 1,851,747</u>	<u>-</u>	<u>\$ (156,693)</u>	<u>\$ 1,695,054</u>

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2020, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2020</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2020</u>
Deferred amount on debt defeasance, net	<u>\$ 2,008,440</u>	<u>-</u>	<u>\$ (156,693)</u>	<u>\$ 1,851,747</u>

Revenue Bonds Payable – 2018

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

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 7 – LONG-TERM DEBT (continued)

D. Revenue Refunding Bonds Payable (continued)

Revenue Bonds Payable – 2018 (continued)

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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	250,000	568,893	818,893
2023	265,000	556,394	821,394
2024	275,000	545,794	820,794
2025	290,000	532,044	822,044
2026	305,000	517,544	822,544
2027-2031	1,765,000	2,343,719	4,108,719
2032-2036	2,195,000	1,905,419	4,100,419
2037-2041	2,620,000	1,479,619	4,099,619
2042-2046	3,300,000	797,512	4,097,512
2047-2048	<u>1,540,000</u>	<u>102,363</u>	<u>1,642,363</u>
Total	12,805,000	<u>\$ 9,349,301</u>	<u>\$ 22,154,301</u>
Less: current	<u>(250,000)</u>		
Total non-current	<u>\$ 12,555,000</u>		

Revenue Refunding Bonds – Non-Taxable – 2020

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

The advance refunding resulted in a net present value benefit to the District of \$751,628 in interest savings from the refunding.

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2021 and 2020*

NOTE 7 – LONG-TERM DEBT (continued)**D. Revenue Refunding Bonds Payable (continued)****Revenue Refunding Bonds – Non-Taxable – 2020 (continued)**

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	12,913	294,968	307,881
2023	13,337	294,544	307,881
2024	13,776	294,105	307,881
2025	14,229	293,652	307,881
2026	14,698	293,183	307,881
2027-2031	81,067	1,458,337	1,539,404
2032-2036	1,784,416	1,416,789	3,201,205
2037-2041	4,858,048	847,555	5,705,603
2042-2043	<u>2,173,120</u>	<u>107,842</u>	<u>2,280,962</u>
Total	8,965,604	<u>\$ 5,300,975</u>	<u>\$ 14,266,579</u>
Less: current	<u>(12,913)</u>		
Total non-current	<u>\$ 8,952,691</u>		

Revenue Refunding Bonds – Taxable – 2020

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

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

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

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 7 – LONG-TERM DEBT (continued)

D. Revenue Refunding Bonds Payable (continued)

Revenue Refunding Bonds – Taxable – 2020 (continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	165,000	388,990	553,990
2023	165,000	387,727	552,727
2024	170,000	386,290	556,290
2025	170,000	384,305	554,305
2026	170,000	381,894	551,894
2027-2031	3,790,000	1,854,498	5,644,498
2032-2034	<u>9,725,000</u>	<u>570,537</u>	<u>10,295,537</u>
Total	14,355,000	<u>\$ 4,354,241</u>	<u>\$ 18,709,241</u>
Less: current	<u>(165,000)</u>		
Total non-current	<u>\$ 14,190,000</u>		

Deferred Amount on Debt Defeasance, Net

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2021, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2021</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2021</u>
Deferred amount on debt defeasance, net	<u>\$ 1,760,000</u>		<u>\$ (35,890)</u>	<u>\$ 1,724,110</u>

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2020, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2020</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2020</u>
Deferred amount on debt defeasance, net	<u>\$ -</u>	<u>\$ 1,795,890</u>	<u>\$ (35,890)</u>	<u>\$ 1,760,000</u>

Water Revenue Bonds – Non-Taxable – 2021

In July 2021, the Palmdale Water District Public Financing Authority (Authority) issued \$9,390,000 in Water Revenue Bonds – Series 2021A (Bonds-2021A) with maturities from 2022 through 2051 with an interest rate range coupon of 4.00% by and between the Authority and the Bank of New York Mellon Trust Company. The Bonds-2021A were issued: (i) to finance certain improvements to the District’s Water system; and (ii) to pay the costs of issuing the Bonds-2021A of \$267,309. The District has pledged 100% of its water revenues to collateralize the debt. The issuance resulted in a premium on the issuance of \$877,309 which is being amortized over the remaining debt service years. Principal and interest payments are due in April and October of each year as noted.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 7 – LONG-TERM DEBT (continued)

D. Revenue Refunding Bonds Payable (continued)

Water Revenue Bonds – Series 2021A (continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	-	358,837	358,837
2023	-	299,725	299,725
2024	-	299,725	299,725
2025	-	299,725	299,725
2026	-	299,725	299,725
2027-2031	-	1,498,625	1,498,625
2032-2036	845,000	1,482,025	2,327,025
2037-2041	2,410,000	1,168,263	3,578,263
2042-2046	2,815,000	761,800	3,576,800
2047-2051	3,320,000	253,000	3,573,000
Total	9,390,000	\$ 6,721,450	\$ 12,538,450
Less: current	-		
Total non-current	\$ 9,390,000		

Revenue Refunding Bonds – 2021

In August 2021, the Palmdale Water District Public Financing Authority (Authority) issued \$10,549,330 in Revenue Refunding Bonds – 2021 (Bonds-2021) with maturities from 2022 through 2028 with an interest rate coupon of 1.53% pursuant to an Installment Purchase Agreement dated August 31, 2021. The Bonds-2021 were issued: (i) to prepay the \$9,530,000 of District’s outstanding Bonds-2013 principal from 2025 to 2028; (ii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the Bonds-2021 in case of default; and (iii) to pay the costs of issuing the Bonds-2021 \$115,000. The District has pledged 100% of its water revenues to collateralize the debt. Principal and interest payments are due in October of each year.

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

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

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 7 – LONG-TERM DEBT (continued)

D. Revenue Refunding Bonds Payable (continued)

Revenue Refunding Bonds – Series 2021 (continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	192,830	167,617	360,447
2023	209,680	157,652	367,332
2024	212,890	154,432	367,322
2025	2,426,140	142,709	2,568,849
2026	2,467,760	105,430	2,573,190
2027-2028	5,040,030	96,708	5,136,738
Total	10,549,330	\$ 824,548	\$ 11,373,878
Less: current	(192,830)		
Total non-current	\$ 10,356,500		

Deferred Amount on Debt Defeasance, Net

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2021, was as follows:

<u>Description</u>	<u>Balance, Jan. 1, 2021</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance, Dec. 31, 2021</u>
Deferred amount on debt defeasance, net	\$ -	734,960	(104,994)	\$ 629,966

NOTE 8 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Summary

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

<u>Description</u>	<u>2021</u>	<u>2020</u>
OPEB related deferred outflows	\$ 3,245,025	\$ 3,350,850
Net other post-employment benefits obligation	12,751,874	16,479,807
OPEB related deferred inflows	5,201,829	1,035,319

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).

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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

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:

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

Employees covered by benefit terms

At December 31, 2021 and 2020, the following employees were covered by the benefit terms:

<u>Plan Members</u>	<u>Covered Participants</u>	
	<u>2021</u>	<u>2020</u>
Active members	85	86
Inactives entitled to but not yet receiving benefits	-	-
Inactives currently receiving benefits	23	22
Total plan members	108	108

A. Total OPEB Liability

The District's total OPEB liabilities of \$12,751,874 \$16,479,807 as of December 31, 2021 and 2020, respectively, were measured as of December 31, 2020 and 2019 (Measurement Dates), and were determined by an actuarial valuation as of December 31, 2019.

Actuarial assumptions and other inputs

The total OPEB liability in the December 31, 2020 and 2019 (Measurement Dates) actuarial valuation roll-forwards were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<u>2021</u>	<u>2020</u>
Discount Rate	2.12%	2.74%
Inflation	2.50%	2.75%
Salary Increases	2.75% per annum, in aggregate	3.0% per annum, in aggregate
Investment Rate of Return	2.12%	2.74%
Mortality Rate	CalPERS Membership Data	CalPERS Membership Data
Pre-Retirement Turnover	CalPERS Membership Data	CalPERS Membership Data
Healthcare Trend Rate	Non-Medicare 6.5% to Medicare 5.65%	Non-Medicare 7.5% to Medicare 6.5%

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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

A. Total OPEB Liability (continued)

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 2.12% as of December 31, 2020 and 2.74% as of December 31, 2019. 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, 2020 (Measurement Date) actuarial valuation:

	Total OPEB Liability
Balance at January 1, 2021 (MD Jan. 1, 2020)	\$ 16,479,807
Changes for the year:	
Service cost	677,977
Interest	464,926
Assumption changes	231,952
Changes of benefit terms	142,064
Actual vs expected experience	(4,865,442)
Benefit payments	(379,410)
Net changes	<u>(3,727,933)</u>
Balance at December 31, 2021 (MD Dec. 31, 2020)	<u>\$ 12,751,874</u>

The following table is based on the roll-forward of the December 31, 2019 (Measurement Date) actuarial valuation:

	Total OPEB Liability
Balance at January 1, 2020 (MD Jan. 1, 2019)	\$ 12,965,681
Changes for the year:	
Service cost	459,128
Interest	542,470
Assumption changes	2,835,458
Benefit payments	(322,930)
Net changes	<u>3,514,126</u>
Balance at December 31, 2020 (MD Dec. 31, 2019)	<u>\$ 16,479,807</u>

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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.

The following table is based on the December 31, 2020 (Measurement Date) actuarial valuation:

<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
<u>1.12%</u>	<u>2.12%</u>	<u>3.12%</u>
<u>\$ 14,844,495</u>	<u>\$ 12,751,874</u>	<u>\$ 11,052,701</u>

The following table is based on the December 31, 2019 (Measurement Date) actuarial valuation:

<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
<u>1.74%</u>	<u>2.74%</u>	<u>3.74%</u>
<u>\$ 19,422,961</u>	<u>\$ 16,479,807</u>	<u>\$ 14,120,365</u>

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

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

The following table is based on the December 31, 2020 (Measurement Date) actuarial valuation:

<u>1% Decrease</u>	<u>Healthcare Cost Current Trend</u>	<u>1% Increase</u>
<u>\$ 10,734,986</u>	<u>\$ 12,751,874</u>	<u>\$ 15,362,029</u>

The following table is based on the December 31, 2019 (Measurement Date) actuarial valuation:

<u>1% Decrease</u>	<u>Healthcare Cost Current Trend</u>	<u>1% Increase</u>
<u>\$ 13,661,499</u>	<u>\$ 16,479,807</u>	<u>\$ 20,151,057</u>

PALMDALE WATER DISTRICT*Notes to Financial Statements**December 31, 2021 and 2020***NOTE 8 – NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION (continued)****C. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended December 31, 2021 and 2020, the District recognized OPEB expense/(credit) of \$1,013,307 and \$1,250,555, respectively.

At December 31, 2021, the District reported \$3,245,025 of deferred outflows of resources and \$5,201,829 of deferred inflows of resources for related to the net OPEB obligation as follows:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date of the net OPEB liability	\$ 468,905	\$ -
Changes in assumptions	2,776,120	(883,066)
Net difference in earnings on plan investments	-	(4,318,763)
Total	<u>\$ 3,245,025</u>	<u>\$ (5,201,829)</u>

At December 31, 2021, the District reported \$468,905 of deferred outflows of resources for employer contributions made subsequent to the measurement date which will be used to reduce the net OPEB liability balance in the coming year. Amortization of the remaining deferred outflows/(inflows) of resources related to the net OPEB obligation is as follows:

	<u>Amount</u>
Year Ended June 30:	
2022	\$ (271,660)
2023	(271,660)
2024	(271,660)
2025	(271,660)
2026	(287,461)
Thereafter	(582,703)
Total	<u>\$ (1,956,804)</u>

At December 31, 2020, the District reported \$3,350,850 of deferred outflows of resources and \$1,035,319 of deferred inflows of resources for related to the net OPEB obligation as follows:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date of the net OPEB liability	\$ 379,410	\$ -
Changes in assumptions	2,971,440	(1,035,319)
Total	<u>\$ 3,350,850</u>	<u>\$ (1,035,319)</u>

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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

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

At December 31, 2020, the District reported \$379,410 of deferred outflows of resources for employer contributions made subsequent to the measurement date which will be used to reduce the net OPEB liability balance in the coming year. Amortization of the remaining deferred outflows/(inflows) of resources related to the net OPEB obligation is as follows:

	<u>Amount</u>
Year Ended June 30:	
2021	\$ 248,957
2022	248,957
2023	248,957
2024	248,957
2025	248,957
Thereafter	<u>691,336</u>
Total	<u>\$ 1,936,121</u>

NOTE 9 – PENSION PLAN

Summary

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

<u>Description</u>	<u>2021</u>	<u>2020</u>
Pension related deferred outflows	\$ 1,778,407	\$ 2,055,953
Net pension liability	6,056,636	11,573,771
Pension related deferred inflows	5,498,117	264,680

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, 2021 and June 30, 2020, respectively, which are rolled-forward for the District's fiscal years ended December 31, 2021 and December 31, 2020.

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

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
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required member contribution rates	6.906%	6.750%
Required employer contribution rates – FY 2021	10.221%	6.985%
Required employer contribution rates – FY 2020	10.221%	6.985%

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, 2020 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, 2021 and 2020 Annual Actuarial Valuation Reports.

At June 30, 2021, the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Active members	55	31	86
Transferred and terminated members	42	6	48
Retired members and beneficiaries	58	1	59
Total plan members	155	38	193

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 9 – PENSION PLAN (continued)

A. General Information about the Pension Plan (continued)

Plan Description, Benefits Provided and Employees Covered (continued)

At June 30, 2020, the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		Total
	Classic	PEPRA	
	Tier 1	Tier 2	
Active members	59	26	85
Transferred and terminated members	44	4	48
Retired members and beneficiaries	54	-	54
Total plan members	157	30	187

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, 2021, (Measurement Date June 30, 2021) were as follows:

Contribution Type	Total
Contributions – employer	\$ 1,619,062
Contributions – members	550,227
Total contributions	\$ 2,169,289

Contributions for the year ended December 31, 2020, (Measurement Date June 30, 2020) were as follows:

Contribution Type	Total
Contributions – employer	\$ 1,493,530
Contributions – members	522,632
Total contributions	\$ 2,016,162

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, 2021 and 2020, the contributions recognized as part of pension expense for the Plan were \$1,619,062 and \$1,493,530.

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

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, 2021, were as follows:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2020 (Measurement Date)	\$ 47,806,269	\$ 36,232,498	\$ 11,573,771
Balance as of June 30, 2021 (Measurement Date)	\$ 51,562,557	\$ 45,505,922	\$ 6,056,635
Change in Plan Net Pension Liability	\$ 3,756,288	\$ 9,273,424	\$ (5,517,136)

Changes in the net pension liability for the year ended December 31, 2020, were as follows:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2019 (Measurement Date)	\$ 44,392,170	\$ 33,700,832	\$ 10,691,338
Balance as of June 30, 2020 (Measurement Date)	\$ 47,806,269	\$ 36,232,498	\$ 11,573,771
Change in Plan Net Pension Liability	\$ 3,414,099	\$ 2,531,666	\$ 882,433

For the year ended December 31, 2021 and 2020 pension expense was \$829,587 and \$1,509,083, 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, 2020 and 2019). 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, 2021 and 2020). 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, 2021 and 2020 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY 2020-2021 and FY 2019-2020).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$6,056,636 and \$11,573,771, 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, 2020 and 2019, 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, 2019 and 2017 rolled forward to December 31, 2020 and 2019 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, 2021, measurement date was as follows:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending	Fiscal Year Ending	
	December 31, 2021	December 31, 2020	
Measurement Date	June 30, 2021	June 30, 2020	
Percentage of Risk Pool Net Pension Liability	0.31897%	0.27439%	0.04458%
Percentage of Plan (PERF C) Net Pension Liability	0.11199%	0.10637%	0.00562%

The District’s proportionate share of the net pension liability for the June 30, 2020, measurement date was as follows:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending	Fiscal Year Ending	
	December 31, 2020	December 31, 2019	
Measurement Date	June 30, 2020	June 30, 2019	
Percentage of Risk Pool Net Pension Liability	0.27439%	0.26698%	0.00741%
Percentage of Plan (PERF C) Net Pension Liability	0.10637%	0.10434%	0.00203%

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

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)

The total amount of \$835,739 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, 2021. At December 31, 2021, 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	\$ 835,739	\$ -
Difference between actual and proportionate share of employer contributions	-	(210,995)
Adjustment due to differences in proportions	263,481	-
Differences between expected and actual experience	679,187	-
Differences between projected and actual earnings on pension plan investments	-	(5,287,122)
Changes in assumptions	-	-
Total Deferred Outflows/(Inflows) of Resources	\$ 1,778,407	\$ (5,498,117)

The total amount of \$799,171 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, 2021. At December 31, 2020, 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	\$ 799,171	\$ -
Difference between actual and proportionate share of employer contributions	-	(182,131)
Adjustment due to differences in proportions	316,534	-
Differences between expected and actual experience	596,431	-
Differences between projected and actual earnings on pension plan investments	343,817	-
Changes in assumptions	-	(82,549)
Total Deferred Outflows/(Inflows) of Resources	\$ 2,055,953	\$ (264,680)

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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)

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2021, will be amortized to pension expense in future periods as follows:

Amortization Period	Deferred
Fiscal Year Ended December 31	Outflows/(Inflows)
	of Resources
2022	\$ 908,090
2023	1,009,095
2024	1,177,177
2025	1,461,087
2026	-
Total	\$ 4,555,449

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2020, will be amortized to pension expense in future periods as follows:

Amortization Period	Deferred
Fiscal Year Ended December 31	Outflows/(Inflows)
	of Resources
2021	\$ 176,692
2022	370,610
2023	279,896
2024	164,904
2025	-
Total	\$ 992,102

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2021 and 2020 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2020 and 2019, total pension liability. The December 31, 2021 and 2020, 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	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

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 7.15%. 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+.

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, 2021, was as follows:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
	CalPERS – Miscellaneous Plan	\$ 12,864,486	\$ 6,056,635

PALMDALE WATER DISTRICT
Notes to Financial Statements
December 31, 2021 and 2020

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 (continued)

Changes in the discount rate for the year ended June 30, 2020, was as follows:

Plan Type	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
CalPERS – Miscellaneous Plan	\$ 17,935,619	\$ 11,573,771	\$ 6,317,175

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, 2021 and 2020, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the year ended December 31, 2021 and 2020.

NOTE 10 – NET POSITION – NET INVESTMENT IN CAPITAL ASSETS

The District's net -position – net investment in capital assets for the years ended December 31, 2021 and 2020 were calculated as follows:

Description	Balance Dec. 31, 2021	Balance Dec. 31, 2020
Restricted – cash and cash equivalents		
– revenue bond proceeds for construction	\$ 11,030,100	\$ 2,264,512
Capital assets – not being depreciated	10,995,185	25,856,069
Capital assets, net – being depreciated	157,172,808	141,108,802
Deferred loss on debt defeasance, net	4,049,130	3,611,747
Capital lease payable – current	(88,250)	(87,040)
Loan payable – current	(1,300,396)	(1,261,002)
Revenue bonds payable – current	(1,215,743)	(777,501)
Capital lease payable	-	(88,250)
Loan payable	(1,342,628)	(2,643,024)
Revenue bonds payable, net	(67,761,583)	(57,842,046)
Total net investment in capital assets	\$ 111,538,623	\$ 110,142,267

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 11 – NET POSITION – UNRESTRICTED (DEFICIT)

As of December 31, 2021 and 2020, the District has an unrestricted net position deficit of (\$15,597,356) and (\$13,320,683). 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 12 – RISK MANAGEMENT

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

A. Entity	ACWA-JPIA
B. Purpose	To pool member contributions and realize the
C. Participants	As of September 30, 2021 – 396 member districts
D. Governing board	Nine representatives employed by members
E. District payments for FY 2021:	
Property policy	\$62,654
Auto/General liability	\$171,544
F. Condensed financial information	September 30, 2021
Audit signed	March 30, 2022
Statement of financial position:	Sept. 30, 2021
Total assets	<u>\$ 271,770,359</u>
Deferred outflows	<u>1,189,142</u>
Total liabilities	<u>123,558,690</u>
Deferred inflows	<u>(409,721)</u>
Net position	<u><u>\$ 149,810,532</u></u>
Statement of revenues, expenses and changes in net position:	
Total revenues	\$ 200,883,781
Total expenses	<u>(174,760,456)</u>
Change in net position	26,123,325
Beginning – net position	<u>123,687,207</u>
Ending – net position	<u><u>\$ 149,810,532</u></u>
G. Member agencies share of year-end financial position	Not Calculated

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 12 – RISK MANAGEMENT (continued)

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. At December 31, 2021 and 2020, 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.

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, 2021, 2020, and 2019. 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, 2021, 2020, and 2019.

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 13 – DEFERRED COMPENSATION SAVINGS PLAN

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

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

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

NOTE 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:

<u>Fiscal Year</u>	<u>Amount</u>
2022	\$ 7,393,256
2023	7,542,236
2024	7,825,463
2025	7,782,541
2026	7,952,458

As of December 31, 2021, the District has expended approximately \$129,263,990 since the District started participating in the State Water Contract.

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

<u>Type of Long-Term Obligation</u>	<u>Amount</u>
State Water Project Contract:	
Transportation facilities	\$86,227,452
Delta water charges	28,566,321
Off-aqueduct power facilities	61,254
Revenue bond surcharge	4,445,826
Total	<u>\$119,300,853</u>

PALMDALE WATER DISTRICT

Notes to Financial Statements

December 31, 2021 and 2020

NOTE 14 – COMMITMENTS AND CONTINGENCIES (continued)

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.

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 \$1,413,366 to complete the open construction contracts as of December 31, 2021. These include the following:

<u>Project Description</u>	<u>Cost of Project to Date</u>	<u>Estimated Costs to Complete</u>	<u>Total Expected Project Cost</u>
Sediment removal – Littlerock Dam	\$ 4,366,255	\$ -	\$ 5,500,000
Littlerock Creek Groundwater Recharge Project	4,209,279	790,721	5,000,000
Upper Armagosa Creek project	2,127,355	622,645	2,750,000
Total	<u>\$ 10,702,889</u>	<u>\$ 1,413,366</u>	<u>\$ 13,250,000</u>

Other Litigation

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

NOTE 15 – CURRENT AND SUBSEQUENT EVENTS

The District has evaluated subsequent events through June 21, 2022, the date which the financial statements were available to be issued.

Required Supplementary Information

PALMDALE WATER DISTRICT*Schedule of Proportionate Share of the Net Pension Liability
For the Years Ended December 31, 2021 and 2020***Last Ten Fiscal Years*****California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

Measurement Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability
June 30, 2014	0.10201%	\$ 6,347,533	\$ 6,027,591	105.31%	79.93%
June 30, 2015	0.09802%	6,727,907	6,377,315	105.50%	79.62%
June 30, 2016	0.10037%	8,685,489	6,778,010	128.14%	75.59%
June 30, 2017	0.10166%	10,081,661	6,482,822	155.51%	74.68%
June 30, 2018	0.10180%	9,809,458	6,735,592	145.64%	76.68%
June 30, 2019	0.10434%	10,691,338	7,391,878	144.64%	75.92%
June 30, 2020	0.10637%	11,573,771	7,675,493	150.79%	75.79%
June 30, 2021	0.11199%	6,056,636	8,369,880	72.36%	88.25%

Notes to Schedule:**Benefit Changes:**

There were no changes in benefits.

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

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

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019:

There were no significant changes in assumptions.

From fiscal year June 30, 2019 to June 30, 2020:

There were no significant changes in assumptions.

From fiscal year June 30, 2020 to June 30, 2021:

There were no significant changes in assumptions.

*Fiscal year 2014 was the first measurement date year of implementation; therefore, only seven years are shown.

PALMDALE WATER DISTRICT
Schedule of Pension Contributions
For the Years Ended December 31, 2021 and 2020

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 805,370	\$ (805,370)	\$ -	\$ 6,027,591	13.36%
2015	819,205	(819,205)	-	6,377,315	12.85%
2016	945,678	(945,678)	-	6,778,010	13.95%
2017	1,026,759	(1,026,759)	-	6,482,822	15.84%
2018	1,178,448	(1,178,448)	-	6,735,592	17.50%
2019	1,373,023	(1,373,023)	-	7,391,878	18.57%
2020	1,559,864	(1,559,864)	-	7,675,493	20.32%
2021	1,655,630	(1,655,630)	-	8,369,880	19.78%

Notes to Schedule:

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

Amortization Method	Level percentage of payroll, closed
Salary Increases	Depending on age, service, and type of employment
Investment Rate of Return	Net of pension plan investment expense, including inflation
Retirement Age	50 years (2%@55), 52 years (2%@62)
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

*Fiscal year 2014 was the first measurement date year of implementation; therefore, only seven years are shown.

PALMDALE WATER DISTRICT

*Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Years Ended December 31, 2021 and 2020*

	Last Ten Fiscal Years*			
Fiscal Year Ended	<u>Dec. 31, 2021</u>	<u>Dec. 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Measurement Date	<u>Dec. 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>	<u>Dec. 31, 2017</u>
Total OPEB liability:				
Service cost	\$ 677,977	\$ 459,128	\$ 533,709	\$ 471,435
Interest	464,926	542,470	480,852	475,129
Changes of assumptions	231,952	2,835,458	(1,339,825)	695,190
Differences between expected and actual experience	(4,865,442)	-	-	-
Changes of benefit terms	142,064	-	-	-
Benefit payments	<u>(379,410)</u>	<u>(322,930)</u>	<u>(307,191)</u>	<u>(283,520)</u>
Net change in total OPEB liability	(3,727,933)	3,514,126	(632,455)	1,358,234
Total OPEB liability - beginning	<u>16,479,807</u>	<u>12,965,681</u>	<u>13,598,136</u>	<u>12,239,902</u>
Total OPEB liability - ending	<u>\$ 12,751,874</u>	<u>\$ 16,479,807</u>	<u>\$ 12,965,681</u>	<u>\$ 13,598,136</u>
Covered-employee payroll	<u>\$ 8,522,694</u>	<u>\$ 8,492,001</u>	<u>\$ 8,067,557</u>	<u>\$ 7,459,193</u>
District's net OPEB liability as a percentage of covered-employee payroll	<u>149.62%</u>	<u>194.06%</u>	<u>160.71%</u>	<u>182.30%</u>

Notes to Schedule:

Benefit Changes:

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

Changes in Assumptions:

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

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

PALMDALE WATER DISTRICT

Schedule of OPEB Contributions

For the Years Ended December 31, 2021 and 2020

Last Ten Fiscal Years*

**The Plan is not administered through a qualified trust.
Therefore, there is no Actuarially Determined Contribution (ADC)**

Fiscal Year Ended	<u>Dec. 31, 2021</u>	<u>Dec. 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Contributions made	\$ 381,892	\$ 305,410	\$ 245,893	\$ 240,695
Implied subsidy	<u>87,013</u>	<u>74,000</u>	<u>77,037</u>	<u>66,496</u>
Total contributions	<u>\$ 468,905</u>	<u>\$ 379,410</u>	<u>\$ 322,930</u>	<u>\$ 307,191</u>

Notes to Schedule:

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

(1) CalPERS 1997-2015 Experience Study

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

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

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

Supplementary Information

PALMDALE WATER DISTRICT
Schedules of Debt Service Net Revenues Coverage
For the Year Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Total revenues:		
Operating revenues	\$ 30,361,197	\$ 27,553,220
Non-operating revenues	8,217,314	8,379,165
Capital contributions – capital improvement fees and grants	<u>5,716,336</u>	<u>1,235,438</u>
Total revenues	<u>44,294,847</u>	<u>37,167,823</u>
Total expenses:		
Operating expenses before depreciation expense	<u>28,491,804</u>	<u>25,282,387</u>
Non-operating expenses	7,081,128	5,731,408
Less debt service items:		
Interest expense – long-term debt	<u>(2,525,060)</u>	<u>(2,478,228)</u>
Total non-operating expenses adjusted for debt service items	<u>4,556,068</u>	<u>3,253,180</u>
	<u>33,047,872</u>	<u>28,535,567</u>
Net revenues available for debt service	<u>\$ 11,246,975</u>	<u>\$ 8,632,256</u>
Debt service for the fiscal year	<u>\$ 4,450,448</u>	<u>\$ 4,505,466</u>
Debt service net revenues coverage ratio	<u>253%</u>	<u>192%</u>

Other Independent Auditors' Reports



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

Board of Directors
Palmdale Water District
Palmdale, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palmdale Water District (District) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 21, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Murrieta, California
June 21, 2022