

PALMDALE RECYCLED WATER AUTHORITY BOARD MEMORANDUM

DATE: July 11, 2023 **July 17, 2023**
TO: BOARD OF DIRECTORS **Board Meeting**
FROM: Dennis J. Hoffmeyer, Treasurer-Auditor, PRWA
VIA: Mr. Dennis LaMoreaux, Executive Director, PRWA

RE: AGENDA ITEM NO 5.4 – BASIC FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS’ REPORT AND REQUIRED SUPPLEMENTAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2022

Recommendation:

Palmdale Recycled Water Authority (PRWA) staff recommends the Board of Directors to receive and file the annual basic financial statements with independent auditors’ report for year ended December 31, 2022.

Background:

To comply with provisions required by Section 5.4(b) of the Joint Powers of Authority Agreement and responsibilities of the Authority, a certified public accounting firm has completed the annual auditors’ report and required supplemental information for the Board. These reports are hereby submitted to the Board of Directors for ratification.

Financial Highlights

- The Authority’s net position increased by approximately 0.2% or \$8,601 compared to last year.
- The Authority had 2022 operating revenue of \$105,587 as compared to 2021 operating revenue of \$136,495 primarily due to a reduction in water sales in 2022.
- The Authority’s operating expenses for 2022 decreased \$28,507 from \$135,262 in 2021 to \$106,755 in 2022 due primarily to a decrease of \$19,221 in general administrative expenses related to materials and supplies.


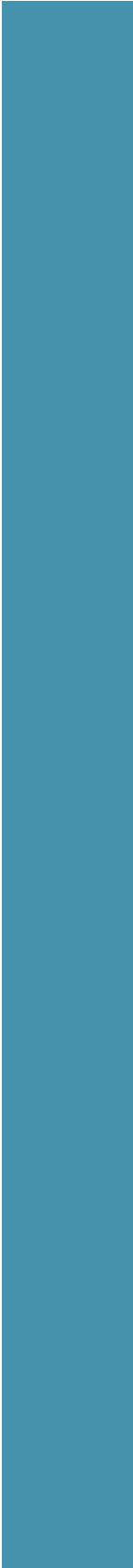
The audit did not contain any findings of other matters that are required to be reported to the Board.

Financial Impact:

None

Supporting Documents:

Basic Financial Statements with Independent Auditors’ Report for Year Ended December 31, 2022.



**PALMDALE RECYCLED WATER AUTHORITY
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
For the Fiscal Years Ended
December 31, 2022 and 2021**

NIGRO & NIGRO^{PC}

PALMDALE RECYCLED WATER AUTHORITY

For the Fiscal Years Ended December 31, 2022 and 2021

Table of Contents

FINANCIAL SECTION

Page

Independent Auditors' Report 1
Management's Discussion and Analysis..... 4
Basic Financial Statements:
 Balance Sheets..... 7
 Statements of Revenues, Expenses and Changes in Net Position..... 8
 Statements of Cash Flows..... 9
Notes to Financial Statements10

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.....17

Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
Palmdale Recycled Water Authority
Palmdale, California

Opinion

We have audited the accompanying financial statements of the Palmdale Recycled Water Authority (Authority) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2022 and 2021, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated April 30, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

Murrieta, California
April 30, 2023

PALMDALE RECYCLED WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended December 31, 2022 and 2021

Management's Discussion and Analysis (MD&A) offers readers of Palmdale Recycled Water Authority's financial statements a narrative overview of the Authority's financial activities for the fiscal years ended December 31, 2022 and 2021. 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

- Authority's net position increased by approximately 0.20% or \$8,601, compared to the prior year.
- The Authority had 2022 operating revenue of \$105,587 as compared to 2021 operating revenue of \$136,495 primarily due to a reduction in water sales in 2022.
- The Authority's operating expenses for 2022 decreased \$28,507 from \$135,262 in 2021 to \$106,755 in 2022 due primarily to a decrease of \$19,221 in general administrative expenses related to materials and supplies.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements accompanying this MD&A present the net position and results of operations during the fiscal year ending December 31, 2022 and 2021. These financial statements have been prepared using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

REQUIRED FINANCIAL STATEMENTS

Balance Sheet

The Balance Sheet presents information on the Authority's assets and liabilities the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, zoning, and new or changed legislation or regulations also need to be considered when establishing financial position. Assets exceed liabilities, resulting in a net position of \$4,413,565 as of December 31, 2022.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Authority's net position changed during the fiscal year. All of the year's revenues and expenses are accounted for in this statement. This statement measures the results of the Authority's operations for the year and can be used to determine if the Authority has successfully recovered all of its costs through user fees and other charges. Operating revenues and expenses are related to the Authority's core activities. Non-operating revenues and expenses are not directly related to the core activities of the Authority. For the fiscal year ended December 31, 2022 net position increased by 0.20% or \$8,601.

PALMDALE RECYCLED WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended December 31, 2022 and 2021

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Balance Sheet

	<u>2022</u>	<u>2021</u>	<u>Change</u>
ASSETS			
Current assets	\$ 2,880,903	\$ 2,829,944	\$ 50,959
Capital assets, net (note 3)	<u>1,588,861</u>	<u>1,642,268</u>	<u>(53,407)</u>
Total assets	<u>\$ 4,469,764</u>	<u>\$ 4,472,212</u>	<u>\$ (2,448)</u>
LIABILITIES			
Current liabilities	<u>\$ 56,199</u>	<u>\$ 67,248</u>	<u>\$ (11,049)</u>
Total liabilities	<u>56,199</u>	<u>67,248</u>	<u>(11,049)</u>
NET POSITION			
Investment in capital assets	1,588,861	1,642,268	(53,407)
Unrestricted	<u>2,824,704</u>	<u>2,762,696</u>	<u>62,008</u>
Total net position	<u>4,413,565</u>	<u>4,404,964</u>	<u>8,601</u>
Total liabilities and net position	<u>\$ 4,469,764</u>	<u>\$ 4,472,212</u>	<u>\$ (2,448)</u>

The Authority's net position increased by approximately 0.20% or \$8,601 compared to the prior year.

Analysis of Revenues and Expenses

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

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Operating revenues	\$ 105,587	\$ 136,495	\$ (30,908)
Operating expenses	<u>106,755</u>	<u>135,262</u>	<u>(28,507)</u>
Operating income	(1,168)	1,233	(2,401)
Non-operating revenues	<u>9,769</u>	<u>635</u>	<u>9,134</u>
Change in net position	8,601	1,868	<u>\$ 6,733</u>
Net position			
Beginning of year	<u>4,404,964</u>	<u>4,403,096</u>	
End of year	<u>\$ 4,413,565</u>	<u>\$ 4,404,964</u>	

PALMDALE RECYCLED WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended December 31, 2022 and 2021

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Analysis of Revenues and Expenses (continued)

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses and Changes in Net Position provides answers to the nature and source of these changes. The main factor in the change in net position is due to the following:

- The Authority had 2022 operating revenue of \$105,587 as compared to 2021 operating revenue of \$136,495 primarily due to a decrease in water sales in 2022.
- The Authority's operating expenses for 2022 decreased \$28,507 from \$135,262 in 2021 to \$106,755 in 2022 due primarily to a decrease of \$19,221 in general and administrative expense related to materials and supplies.

CAPITAL ASSETS

At the end of 2022, the Authority had \$1,588,861 as an investment in net capital assets that includes the recycled water pipeline and pumping facilities. This asset was transferred from the City of Palmdale to the Authority as part of the joint-powers agreement in prior years.

FACTORS AFFECTING CURRENT FINANCIAL POSITION

The Authority anticipates that operating revenues and expenses for fiscal year 2023 will be about the same as fiscal year 2022. This is reflected in the Authority's budget for the 2023 fiscal year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is intended to provide the Board of Directors, customers, taxpayers, creditors, and other interested parties with general overview of the Authority's financial operations and condition at the year ended December 31, 2022, and to demonstrate the Authority's accountability for the funds it receives. If you have any questions about this report or need additional information, you may contact Palmdale Water District, Finance Department, at 2029 E Avenue Q, Palmdale, CA 93550. (661) 947-4111.

PALMDALE RECYCLED WATER AUTHORITY*Balance Sheets**December 31, 2022 and 2021*

	<u>2022</u>	<u>2021</u>	<u>Change</u>
ASSETS			
Cash and cash equivalents (note 2)	\$ 628,854	\$ 892,930	\$ 264,076
Investments (note 2)	2,236,589	1,916,838	(319,751)
Interest receivable	7,042	5,885	(1,157)
Accounts receivable	6,456	8,360	1,904
Prepaid expenses	1,962	5,931	3,969
Capital assets, net (note 3)	<u>1,588,861</u>	<u>1,642,268</u>	<u>53,407</u>
Total assets	<u>\$ 4,469,764</u>	<u>\$ 4,472,212</u>	<u>\$ 2,448</u>
LIABILITIES			
Accounts payable	\$ 19,755	\$ 37,392	\$ (17,637)
Customer deposits	<u>36,444</u>	<u>29,856</u>	<u>6,588</u>
Total liabilities	<u>56,199</u>	<u>67,248</u>	<u>(11,049)</u>
NET POSITION			
Investment in capital assets	1,588,861	1,642,268	(53,407)
Unrestricted	<u>2,824,704</u>	<u>2,762,696</u>	<u>62,008</u>
Total net position	<u>4,413,565</u>	<u>4,404,964</u>	<u>8,601</u>
Total liabilities and net position	<u>\$ 4,469,764</u>	<u>\$ 4,472,212</u>	<u>\$ (2,448)</u>

PALMDALE RECYCLED WATER AUTHORITY*Statements of Revenues Expenses and Changes in Net Position
For the Fiscal Years Ended December 31, 2022 and 2021*

	<u>2022</u>	<u>2021</u>
Operating revenues		
Water sales	\$ 59,894	\$ 91,404
Meter and other revenue	<u>45,693</u>	<u>45,091</u>
Total operating revenues	<u>105,587</u>	<u>136,495</u>
Operating expenses		
Source of supply	22,007	31,293
General and administrative	31,341	50,562
Depreciation	<u>53,407</u>	<u>53,407</u>
Total operating expenses	<u>106,755</u>	<u>135,262</u>
Operating income(loss)	<u>(1,168)</u>	<u>1,233</u>
Non-operating revenues		
Investment earnings	<u>9,769</u>	<u>635</u>
Total non-operating revenues	<u>9,769</u>	<u>635</u>
Change in net position	8,601	1,868
Net position		
Beginning of year	<u>4,404,964</u>	<u>4,403,096</u>
End of year	<u>\$ 4,413,565</u>	<u>\$ 4,404,964</u>

PALMDALE RECYCLED WATER AUTHORITY
Statements of Cash Flows
For the Fiscal Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from water and other revenue	118,048	150,656
Cash payments for operating expenses	<u>(70,985)</u>	<u>(85,549)</u>
Net cash provided by operating activities	<u>47,063</u>	<u>65,107</u>
Cash flows from investing activities:		
Purchases of investments	(2,508,615)	(3,597,667)
Sales of investments	2,178,000	3,413,000
Investment earnings	<u>19,476</u>	<u>18,639</u>
Net cash used in investing activities	<u>(311,139)</u>	<u>(166,028)</u>
Net decrease in cash and cash equivalents	<u>(264,076)</u>	<u>(100,921)</u>
Cash and cash equivalents:		
Beginning of year	<u>892,930</u>	<u>993,851</u>
End of year	<u>\$ 628,854</u>	<u>\$ 892,930</u>
Supplemental disclosure of cash flow information:		
Non-cash investing and financing activities:		
Change in unrealized gains/(losses) of investments	<u>\$ (10,864)</u>	<u>\$ (22,060)</u>
	<u>2022</u>	<u>2021</u>
Reconciliation of operating income(loss) to net cash provided by operating activities:		
Operating income(loss)	\$ (1,168)	\$ 1,233
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:		
Depreciation	53,407	53,407
(Increase) decrease in assets:		
Accounts receivable	1,904	(7,468)
Prepaid expenses	3,969	(4,227)
Increase (decrease) in liabilities:		
Accounts payable	(17,637)	(3,694)
Customer deposits	<u>6,588</u>	<u>25,856</u>
Net cash provided by operating activities	<u>\$ 47,063</u>	<u>\$ 65,107</u>

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations of the Reporting Entity

The Palmdale Recycled Water Authority (Authority) was formed under a Joint Exercise of Powers Authority on September 26, 2012, pursuant to Sections 6506 and 6507 of the Exercise of Powers Act, codified at California Government Code sections 6500, authorizes public agencies by agreement to exercise jointly any power common to the contracting parties. The Authority was formed between the City of Palmdale, a California Charter City (City) and the Palmdale Water District, an Irrigation District under Division 11 of the California Water Code (PWD). The Authority is an independent public agency separate from the Members. The Authority's board consists of two members each from the City and PWD and one public member appointed by the other four members.

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

Basis of Accounting and Measurement Focus

The Authority reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Authority is that the costs of providing services be financed or recovered primarily through user (member) charges, capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Financial Reporting

The Authority's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States Board (GAAP), as applied to enterprise funds, The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the Authority's proprietary fund.

Operating revenues and expenses result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. Management administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

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

Investments

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

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

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

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

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

Prepaid Expenses

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

Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the Authority's policy to capitalize assets costing over \$5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. Estimated service life for the Authority's recycled water distribution system is 40-years.

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Investment in capital assets - This component of net position consists of capital assets net of accumulated depreciation.

Unrestricted – This component of net position is the net amount of the assets less liabilities that are not included in the determination of the investment in capital assets component of net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Member Agency Contributions

The Authority's joint exercise of powers agreement provides that any member may make contributions of money or assets to the Authority; make or advance payments of public funds to defray the cost of Authority's operation; and contribute personnel, equipment or property instead of or in addition to other contributions or advances. Such contributions shall be paid to and disbursed by the Authority as set out in separate agreements between the Authority and the member and approved by the board and the governing body of the member. There were no contributions made in 2022 or 2021.

Grants

Grant revenues are recorded when earned on grants that have been approved and funded by the grantor.

Member's Equity

In the event of a member withdrawal, member termination, or dissolution of the Authority, any property interest remaining in the Authority, following a discharge of all obligations shall be disposed of pursuant to the Joint Powers Agreements as adopted by the Governing Board.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at December 31, 2022 and 2021, are classified on the balance sheet as follows:

Description	2022	2021
Cash and cash equivalents	\$ 628,854	\$ 892,930
Investments	<u>2,236,589</u>	<u>1,916,838</u>
Total cash and investments	<u>\$ 2,865,443</u>	<u>\$ 2,809,768</u>

Cash and investments at December 31, 2022 and 2021, are reported at fair value and consisted of the following:

Description	2022	2021
Demand deposits with financial institutions	\$ 620,591	\$ 573,403
Money-market funds	8,263	319,527
Investments	<u>2,236,589</u>	<u>1,916,838</u>
Total cash and investments	<u>\$ 2,865,443</u>	<u>\$ 2,809,768</u>

Demand Deposits with Financial Institutions

At December 31, 2022 and 2021, the carrying amount of the Authority's demand deposits were \$620,591 and \$573,403, respectively, and the financial institution's balance were \$620,591 and \$573,403, respectively. There was no net difference and/or other reconciling items between the financial institution's balance and the Authority's balance for each year.

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2022 and 2021

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits

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

Money-Market Funds

Money-market funds are an investment whose objective is to earn modest investment earnings while maintaining a net asset value (NAV) of \$1 per share (which is the funds main goal – preservation of principal). A money-market fund's portfolio is typically comprised of short-term, or less than one year, securities representing high-quality, liquid debt and monetary instruments with minimal credit risk. Money-market funds are Level 1 investments (with quoted prices in active markets for identical assets) that are Not Rated under the current credit risk ratings format. For financial reporting purposes, the Authority considers money-market funds a cash equivalent due to their highly liquid nature and NAV of \$1 per share. As of December 31, 2022 and 2021, the Authority held \$8,263 and \$319,527 in money-market funds, respectively.

Authorized Investments and Investment Policy

The Authority is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase of reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations as specified in Section 53600. The Authority does not have a formal policy for investments that is more restrictive than the noted Government Code.

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

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

PALMDALE RECYCLED WATER AUTHORITY*Notes to Financial Statements**December 31, 2022 and 2021***NOTE 2 – CASH AND INVESTMENTS (continued)**

Maturities and credit ratings of investments held at December 31, 2021, consisted of the following:

<u>Type of Investments</u>	<u>Measurement Input</u>	<u>Credit Rating</u>	<u>2021 Fair Value</u>	<u>Maturity 12 Months or Less</u>
U.S. Treasury notes	Level 1	Exempt	\$ 1,171,089	\$ 1,171,089
Certificates-of-deposit	Level 1	Not Rated	745,749	745,749
Total investments			<u>\$ 1,916,838</u>	<u>\$ 1,916,838</u>

Investments - Interest Rate Risk

The Authority's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority's investment policy limits investment purchases to investments with a term not to exceed five-years.

Investments - Credit Risk

The Authority's investment policy limits investment choices to investment securities allowed by the California Government Code. At December 31, 2022 and 2021, all investments represented investment securities which were issued, registered and held by the Authority's agent in the Authority's name.

Investments - Concentration of Credit Risk

The Authority does not place limits on the amount it may invest in any one issuer.

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

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

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2022 and 2021

NOTE 2 – CASH AND INVESTMENTS (continued)

At December 31, 2021, the Authority had the following investments that represented more than five percent of the Authority's net investment balance.

<u>Investments with Maturity Dates</u>	<u>2021 Balance</u>	<u>Percentage of Investments</u>
U.S. Treasury note – March 3, 2022	\$ 499,960	26.08%
U.S. Treasury note – March 31, 2022	301,188	15.71%
U.S. Treasury note – March 31, 2022	369,941	19.30%
Certificate-of-deposit – February 14, 2022	150,487	7.85%
Certificate-of-deposit – March 1, 2022	250,852	13.09%
Certificate-of-deposit – March 31, 2022	92,954	4.85%
Certificate-of-deposit – September 6, 2022	149,910	7.82%
Certificate-of-deposit – September 6, 2022	101,546	5.30%
Total	\$ 1,916,838	100.00%

NOTE 3 – CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

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

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

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

<u>Description</u>	<u>Balance Jan 1, 2021</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance Dec 31, 2021</u>
Depreciable assets:				
Recycled water distribution system	\$ 2,136,283	\$ -	\$ -	\$ 2,136,283
Accumulated depreciation:				
Recycled water distribution system	(440,608)	(53,407)	-	(494,015)
Total capital assets, net	\$ 1,695,675	\$ (53,407)	\$ -	\$ 1,642,268

PALMDALE RECYCLED WATER AUTHORITY

Notes to Financial Statements

December 31, 2022 and 2021

NOTE 4 – RELATED PARTY TRANSACTIONS

The board of the Authority has assigned staff from the Palmdale Water District and the City of Palmdale to serve in various administrative duties of the Authority. All payroll cost related to staff time while serving the Authority is incurred by the respective agencies and none of the payroll costs are incurred by the Authority nor are they charged to the Authority for such services. Other transactions with the member agencies are accounted for as exchange-like transactions between the parties involved.

NOTE 5 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased various commercial insurance policies to manage the potential liabilities that may occur from the previously named sources.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Excluded Leases – Short-Term Leases and De Minimis Leases

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

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

Litigation

The Authority is involved in routine litigation incidental to its business and may be subject to claims and litigation from outside parties. After consultation with legal counsel, management believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

NOTE 7 – SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through April 30, 2023, the date which the financial statements were available to be issued.

Other Independent Auditors' Reports



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

Board of Directors
Palmdale Recycled Water Authority
Palmdale, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Palmdale Recycled Water Authority (Authority) which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 30, 2023.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Murrieta, California
April 30, 2023