

TWENTYNINE PALMS WATER DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2009

Twentynine Palms Water District
Annual Financial Report
Year Ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Twentynine Palms Water District
Twentynine Palms, California

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Twentynine Palms Water District, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities and each major fund of the Twentynine Palms Water District as of June 30, 2009, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2009, on our consideration of the District's internal control over financial reporting and on our tests of the District's 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Teaman Ramirez & Smith

October 7, 2009

Management's Discussion and Analysis

As management of the Twentynine Palms Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information contained within this overview and analysis in conjunction with the financial statements and the related notes.

Financial Highlights

- The assets of the District exceeded its liabilities at June 30, 2009 by \$31,529,219 (*net assets*). It is important to note that this amount represents assets (excluding capital assets) less liabilities. Accordingly, some assets are not available to meet the near-term financial requirements of the District. Of this amount, \$7,914,186 (*unrestricted net assets*) may be used to meet the ongoing obligations to citizens and creditors of the District in addition to paying for capital projects that have been approved by the Board of Directors and appropriated but are not complete.
- District-wide total net assets increased by \$503,867 during the current fiscal year. This change was the result of an increase in net assets invested in capital assets of \$638,880 offset by decreases in restricted net assets of \$58,184 and unrestricted net assets of \$76,829.
- As of June 30, 2009, the District's Governmental Fund (the Fire Department) reported Unrestricted Net Assets of \$1,407,089, an increase of \$4,711; while the Business-type Fund (the Water Department) decreased by \$81,540.
- The District's total debt decreased by \$501,321 or 14 percent during the fiscal year. The decrease was due to the payment of regularly scheduled debt installments. Total debt outstanding as of June 30, 2009 was \$3,169,666. All long-term debt is owed and paid by the Proprietary Fund (Water). The Governmental Fund (Fire) has no long-term debt.
- Total expenses of the Water Fund increased \$292,225; or 8.2 percent, and total Fire Fund expenses (excluding capital) increased by \$27,536, 2.2 percent, compared to the prior year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Twentynine Palms Water District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide Financial Statements. The District-wide Financial Statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes or assessments and earned but unused vacation leave).

Both of the District-wide Financial Statements separate functions of the District that are principally supported by taxes (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include only fire protection. The business-type activities of the District include only Water operations.

The District-wide Financial Statements include all segments of the District (known as the *primary government*) and accordingly include both the Water Enterprise and the Fire Department. These two functional components of the District comprise the total legal entity. The District-wide Financial Statements can be found on pages 1-3 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Twentynine Palms Water District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds (Fire) and proprietary funds (Water).

Governmental funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the District-wide Financial Statements. However, unlike the District-wide Financial Statements, Governmental Fund Financial Statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the District-wide Financial Statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Twentynine Palms Water District maintains one individual Governmental Fund for Fire Protection and Emergency Medical Services.

The District adopts an annual appropriated budget for its Governmental Fund. A budgetary comparison statement has been provided for the Governmental Fund to demonstrate compliance with this budget.

The basic Governmental Fund Financial Statements can be found on pages 4-6 of this report.

Proprietary funds. The District maintains one proprietary fund. This is an Enterprise Fund that is used to report the same functions presented as business-type activities in the District-wide Financial Statements.

Proprietary funds provide the same type of information as the District-wide Financial Statements, only in more detail. The Proprietary Fund Financial Statements provide only information for the Water operation of the District.

The basic Proprietary Fund Financial Statements can be found on pages 7-10 of this report.

Notes to the financial statements. The notes provide additional information that is essential to fully understanding the data provided in the District-wide and Fund Financial Statements. The notes to the financial statements can be found on pages 12-24 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning the District's progress in funding its obligation to provide pension benefits to its employees. Also included within the Required Supplementary Information is a budgetary comparison statement for the Governmental Fund (Fire) to demonstrate its compliance with the adopted budget. Required Supplementary Information can be found on pages 25-26 of this report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Twentynine Palms Water District, assets exceeded liabilities by \$31,529,219 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets, \$23,342,256, or 74%, reflects its investment in capital assets (e.g., land, buildings, vehicles, wells, reservoirs, transmission mains, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Twentynine Palms Water District's Net Assets

	Governmental Activities - Fire		Business-type Activities - Water		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 1,483,575	\$ 1,473,477	\$ 9,723,221	\$ 7,421,726	\$ 11,206,796	\$ 8,895,203
Capital assets	<u>1,071,449</u>	<u>1,093,406</u>	<u>23,013,750</u>	<u>25,280,957</u>	<u>24,085,199</u>	<u>26,374,363</u>
Total assets	<u>\$ 2,555,024</u>	<u>\$ 2,566,883</u>	<u>\$ 32,736,971</u>	<u>\$ 32,702,683</u>	<u>\$ 35,291,995</u>	<u>\$ 35,269,566</u>
Long-term liabilities outstanding	\$ 0	\$ 0	\$ 2,649,058	\$ 3,169,665	\$ 2,649,058	\$ 3,169,665
Other liabilities	<u>76,486</u>	<u>71,099</u>	<u>1,037,232</u>	<u>1,003,450</u>	<u>1,113,718</u>	<u>1,071,549</u>
Total liabilities	<u>\$ 76,486</u>	<u>\$ 71,099</u>	<u>\$ 3,686,290</u>	<u>\$ 4,173,115</u>	<u>\$ 3,762,776</u>	<u>\$ 4,244,214</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 1,071,449	\$ 1,093,406	\$ 22,270,807	\$ 21,609,970	\$ 23,342,256	\$ 22,703,376
Restricted for Debt and Construction	0	0	272,777	330,961	272,777	330,961
Unrestricted	<u>1,407,089</u>	<u>1,402,378</u>	<u>6,507,097</u>	<u>6,588,637</u>	<u>7,914,186</u>	<u>7,991,015</u>
Total net assets	<u>\$ 2,478,538</u>	<u>\$ 2,495,784</u>	<u>\$ 29,050,681</u>	<u>\$ 28,529,568</u>	<u>\$ 31,529,219</u>	<u>\$ 31,025,352</u>

The unrestricted net assets of \$7,914,186 may be used to meet the District's ongoing obligations to citizens and creditors. The District's restricted net assets were \$272,777 as of June 30, 2009.

At the end of the current fiscal year, the Twentynine Palms Water District is able to report positive balances in all categories of net assets, both for the District as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

District-wide total net assets increased by \$503,867 during the current fiscal year. This change was the result of an increase in net assets invested in capital assets of \$638,880 offset by decreases in restricted net assets of \$58,184 and unrestricted net assets of \$76,829.

Financial Analysis of Governmental and Business-type Activities.

The following table sets forth a summary of activities for each of the District's funds, Fire and Water.

Twentynine Palms Water District's Change in Net Assets

	Governmental Activities - Fire		Business-type Activities - Water		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Charges for service	\$ 3,439	\$ 6,832	\$ 2,939,750	\$ 2,981,846	\$ 2,943,189	\$ 2,981,846
Capital grants, Capital Impact Fees and Contributions	52,538	6,449	162,518	139,045	215,056	145,494
Special taxes	1,183,804	1,233,298	0	0	1,183,804	1,233,298
Assessments	0	0	581,581	587,313	581,581	587,313
Other	<u>82,650</u>	<u>77,558</u>	<u>272,249</u>	<u>388,515</u>	<u>354,899</u>	<u>466,073</u>
Total revenues	<u>\$ 1,322,431</u>	<u>\$ 1,324,137</u>	<u>\$ 3,956,098</u>	<u>\$ 4,096,719</u>	<u>\$ 5,278,529</u>	<u>\$ 5,420,856</u>
Expenses:						
Fire Protection (Including Depreciation and excluding Capital Outlay)	\$ 1,264,657	\$ 1,276,299	\$ 0	\$ 0	\$ 1,264,657	\$ 1,276,299
Water	0	0	3,716,640	3,405,202	3,716,640	3,405,202
Interest on Long-term Debt	<u>0</u>	<u>0</u>	<u>124,645</u>	<u>162,076</u>	<u>124,645</u>	<u>143,858</u>
Total expenses	<u>\$ 1,264,657</u>	<u>\$ 1,276,299</u>	<u>\$ 3,841,285</u>	<u>\$ 3,549,060</u>	<u>\$ 5,105,942</u>	<u>\$ 4,825,359</u>
Increase (Decrease) in net assets	57,774	47,838	114,813	549,659	172,587	595,497
Prior Period Adjustment	(75,020)		406,300		331,280	
Beginning Net assets as Restated	<u>2,495,784</u>	<u>2,447,946</u>	<u>28,529,568</u>	<u>27,981,909</u>	<u>31,025,352</u>	<u>30,429,855</u>
Ending Net assets	<u>\$ 2,478,538</u>	<u>\$ 2,495,784</u>	<u>\$ 29,050,681</u>	<u>\$ 28,529,568</u>	<u>\$ 31,529,219</u>	<u>\$ 31,025,352</u>

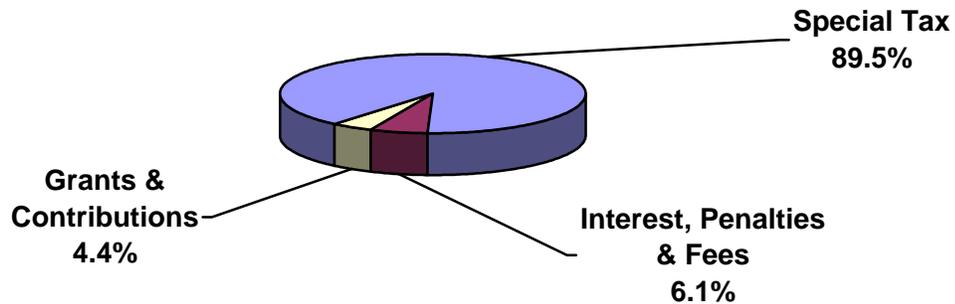
Governmental activities. Governmental activities include only the Fire Fund and the year's activity decreased the fund's net assets by \$17,246 or 1.3 percent of total revenue for the year. This decrease represents 0.7 percent of the beginning net assets of the fund.

Total revenue was \$1,322,431 for the year ended June 30, 2009 compared to \$1,324,137 in the prior year. This decrease of \$1,706 is primarily from reductions in special tax revenue partially offset by increases in capital grant revenue. \$1,183,804 of the current year's total revenue was from the Fire Protection Special Tax. Investment Income, Penalties, Grants, Fees and Other Revenue contributed the remaining \$138,627.

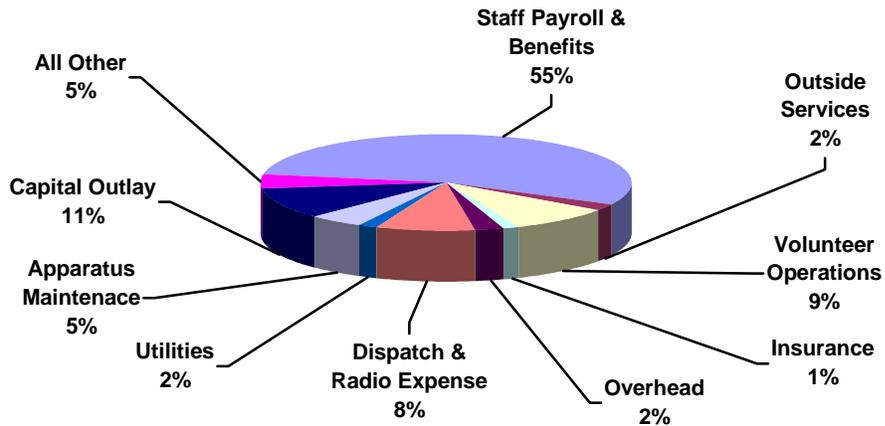
As indicated above, the vast majority of the Governmental Funds revenue comes from a Fire Protection Special Tax that was originally approved by the voters in 1997 and increased by the voters in 2005. This revenue source accounted for 90% of the Fire Departments total revenue for the year ended June 30, 2009.

The following charts display revenue and expenses as a percent of their total.

Fire Department Revenue By Source



Fire Department Expenses By Category



Expenses (including capital) increased by \$171,877 or 14 percent, compared to the prior year. The increase was primarily from salaries, benefits, volunteer operations, and capital outlay expenses incurred in the current year. Those increases were partially offset by the lower apparatus maintenance costs.

Expenses (including capital but excluding depreciation) totaled \$1,367,628 for the year, leaving a decrease to fund balance of \$45,397. The combined cost of Staff Payroll, Benefits, and Volunteer Operations was \$872,027. The next highest expense was Capital Outlay – \$143,790; followed by Communications – \$116,003 and Apparatus Maintenance - \$64,088. The expenses listed above total \$1,195,908 or 87 percent of total expenses.

Business-type activities. These activities include only the District’s proprietary fund (Water) and the financial statements provide the same type of information found in the District-wide Financial Statements, but in more detail.

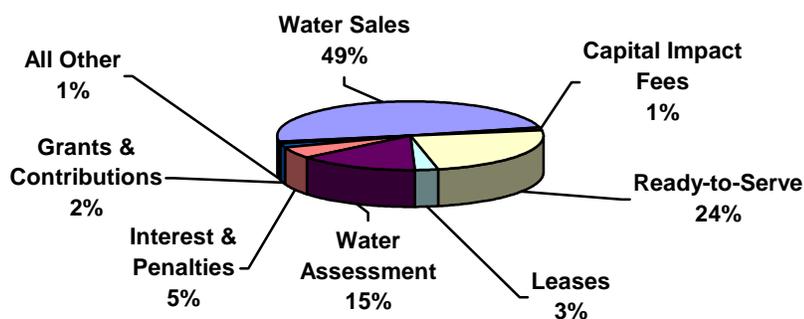
Business-type activities increased the Water Fund’s net assets by \$521,113 accounting for a 2 percent increase in the Enterprise Fund’s net assets. The increase was comprised of a decrease in unrestricted net assets of \$81,540; an increase in net assets invested in capital assets of \$660,837; and a decrease in restricted net assets of \$58,184.

Total Revenues of business-type activities decreased by \$140,621 compared to the prior year. The decrease was primarily the product of lower Interest Income, Meter Installation Fees and Charges for Services. Charges for Services decreased by \$42,096 while Interest on Investments decreased by \$121,444. The District experienced modest new development during fiscal 2009 but at a slower pace than in fiscal 2008. As a result of this slow down in growth, Capital Grant Revenue decreased \$57,620 compared to the prior year and Meter Installation Fees decreased \$10,670. Water Sales and Ready-to-Serve charges had a combined decrease of \$42,533 (1.5 percent) compared to the prior year. The District did receive Capital Contributions of \$80,000 during the current year compared to none in 2008.

Water Sales were \$1,930,913 for the year and represents 49 percent of total revenue. Other revenue sources included Ready-to-Serve Charges of \$955,985; Water Availability Assessments – \$581,581; Investment Interest and Penalties - \$205,195; Capital Impact Fees - \$82,518; and Property Leases - \$112,602. During the year ended June 30, 2009, there were only minor changes in the District’s sources of revenue. Water Sales and Ready-to-Serve charges increased as a percent of the total while Interest Income and Penalties became lesser contributors to the total.

The chart below displays the significant revenue sources for the year ended June 30, 2009. The District’s largest revenue types are typically Water Sales and Ready-to-Serve charges, which together represent 73 percent of the Water Fund’s total revenue for the year. Water Sales are based on the amount of water delivered to the customer. The rate currently being charged to customers has not changed since 1996. The Ready-to-Serve rates are based on capacity of the service and last changed in 2003 when the rates decreased 18 percent. The District has instituted increases in both of these rates effective August 1, 2009.

Water Fund Revenues By Source

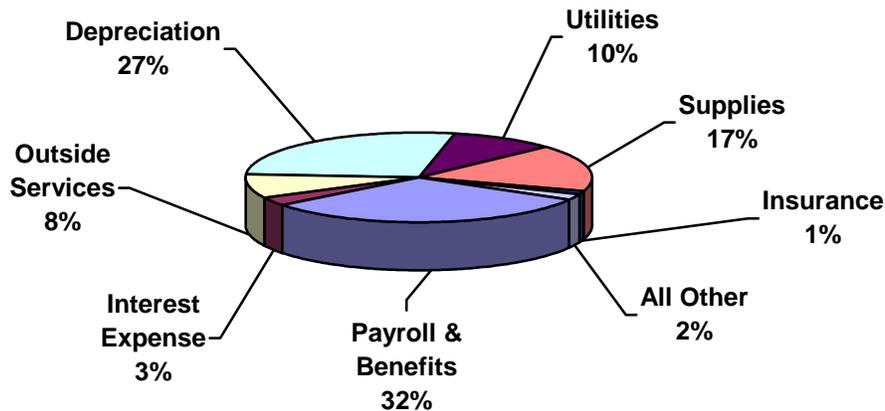


Total Business-type expenses increased \$292,225 or 8 percent from the prior year.

The increase in expenses was primarily attributable to higher Salaries, Benefits, Supplies, and Outside Services while Depreciation and Interest costs decreased. Salaries and Benefits increased by \$37,228 and Supplies Expense increased by \$229,151 and Outside Services increased by \$49,529. The decreased in Depreciation was \$11,480 while Interest decreased by \$19,213. Salaries and Benefits saw increases from higher rates as well as one additional employee hired during fiscal 2009. The increase in Supplies was from the increased use of bulk chemicals at the District’s Fluoride Removal Facility. The District increased the amount of water being treated during fiscal 2009.

As shown in the chart below, Payroll and Benefits represent 32 percent of total expenses while Depreciation accounts for 27 percent of expenses. The magnitude of these two expense categories demonstrates that the delivery of water to customers is a labor and capital intensive enterprise. Interest Expense was 3 percent of total expenses for the year and continues to be less significant as a percent of total expense.

Water Fund Expenses By Category



As noted earlier, the Twentynine Palms Water District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its combined governmental and business type activities totals \$26,511,922 (net of accumulated depreciation) as of June 30, 2009. This investment in capital assets includes land, buildings, vehicles, wells, reservoirs, transmission mains, machinery, vehicles, fire-fighting equipment and other equipment. The increase in the District's combined investment in capital assets for the current fiscal year was the result of depreciation for the year being less than the cost of new capital assets acquired or placed in service during the year. The Water Fund's investment in capital assets increased by \$159,516 while the Fire Department decreased by \$21,957.

**Twentynine Palms Water District's Capital Assets
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land, and improvements	\$ 57,519	\$ 57,519	\$ 299,930	\$ 299,930	\$ 357,449	\$ 357,449
Buildings and structures	786,278	707,828	755,421	755,421	1,541,699	1,463,249
Vehicles and heavy mobile equipment	1,259,718	1,255,600	883,248	846,908	2,142,966	2,102,508
Machinery and equipment	557,789	533,884	983,723	979,660	1,541,512	1,513,544
Infrastructure	0	0	36,122,242	35,616,861	36,122,242	35,616,861
Construction in progress	0	0	2,126,793	1,460,636	2,126,793	1,460,636
Accumulated depreciation	(1,589,855)	(1,461,425)	(15,730,884)	(14,678,459)	(17,320,739)	(16,139,884)
Total	<u>\$ 1,071,449</u>	<u>\$ 1,093,406</u>	<u>\$ 25,440,473</u>	<u>\$ 25,280,957</u>	<u>\$ 26,511,922</u>	<u>\$ 26,374,363</u>

Additional information on the District's capital assets can be found in note 4 on pages 19-20 of this report.

Long-term debt. At the end of the current fiscal year, the Twentynine Palms Water District had total bonded debt outstanding of \$3,169,666, including the portion that is due within one year - \$520,608. All of the District's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds) of the Water Fund. All outstanding debt was incurred for the benefit of the Water Fund and accordingly is the sole responsibility of the Water Fund.

**Twentynine Palms Water District's Outstanding Debt
Revenue Bonds**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenue bonds - Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,169,666</u>	<u>\$ 3,670,987</u>	<u>\$ 3,169,666</u>	<u>\$ 3,670,987</u>

The District's total debt decreased by \$501,321 or 13 percent during the current fiscal year. The decrease was the result of regularly scheduled principal payments made during the year.

Additional information on the District's long-term debt can be found in note 6 on pages 20-22 of this report.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the General Manager, 72401 Hatch Road, Twentynine Palms, California, 92277.

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Twentynine Palms Water District
Statement of Net Assets
June 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 10,898	\$ 103,305	\$ 114,203
Temporary Investments	1,261,515	5,660,283	6,921,798
Accounts Receivable:			
Water - Net		489,750	489,750
Assessments - Net	188,499	117,616	306,115
Grants	17,742		17,742
Other		9,962	9,962
Accrued Interest Receivable	4,921	22,503	27,424
Internal Balances	(1,283)	1,283	-
Material Inventory		159,952	159,952
Prepaid Expenses and Other		56,269	56,269
Deferred Charges		18,825	18,825
Restricted Assets:			
Cash		356,750	356,750
Temporary Investments		300,000	300,000
Capital Assets Not Being Depreciated:			
Land	57,519	299,930	357,449
Construction in Progress		2,126,793	2,126,793
Capital Assets, Net of Accumulated Depreciation	<u>1,013,930</u>	<u>23,013,750</u>	<u>24,027,680</u>
 Total Assets	 <u>2,553,741</u>	 <u>32,736,971</u>	 <u>35,290,712</u>
LIABILITIES			
Accounts Payable	17,180	83,623	100,803
Accrued Salaries and Compensated Absences	23,766	4,703	28,469
Other Current Liabilities	800	44,778	45,578
Deposits		296,286	296,286
Accrued Interest Payable		16,801	16,801
Liabilities Payable from Restricted Assets:			
Accrued Interest Payable		19,177	19,177
Long-term Debt Due within One Year		520,608	520,608
Noncurrent Liabilities			
Compensated Absences Payable	33,457	51,256	84,713
Long-term Debt		2,649,058	2,649,058
 Total Liabilities	 <u>75,203</u>	 <u>3,686,290</u>	 <u>3,761,493</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,071,449	22,270,807	23,342,256
Restricted for Debt Service		57,695	57,695
Restricted for Construction		215,082	215,082
Unrestricted	<u>1,407,089</u>	<u>6,507,097</u>	<u>7,914,186</u>
 Total Net Assets	 <u>\$ 2,478,538</u>	 <u>\$ 29,050,681</u>	 <u>\$ 31,529,219</u>

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Activities
Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Fire Protection	\$ 1,393,193	\$ 1,411,366	\$	\$ 43,896
Business-type Activities:				
Water Enterprise	3,716,640	3,590,953		80,000
Interest on Long-term Debt	124,645			
Total Primary Government	\$ 5,234,478	\$ 5,002,319	\$ -	\$ 123,896

General Revenues:
Property Leases
Investment Income
Other

Total General Revenues and Transfers

Change in Net Assets

Total Net Assets - Beginning

Prior Period Adjustment

Total Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ 62,069	\$	\$ 62,069
	(45,687)	(45,687)
	(124,645)	(124,645)
62,069	(170,332)	(108,263)
	112,602	112,602
25,754	136,980	162,734
	35,563	35,563
25,754	285,145	310,899
87,823	114,813	202,636
2,495,784	28,529,568	31,025,352
(105,069)	406,300	301,231
\$ 2,478,538	\$ 29,050,681	\$ 31,529,219

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Balance Sheet
Governmental Fund
June 30, 2009

	<u>Fire Protection</u>
ASSETS	
Cash	\$ 10,898
Temporary Investments	1,261,515
Accounts Receivable:	
Assessments, Net of Allowance for Doubtful Accounts of \$242,366	188,499
Grants Receivable	17,742
Accrued Interest Receivable	4,921
Total Assets	<u>\$ 1,483,575</u>
LIABILITIES AND FUND BALANCES	
Accounts Payable	\$ 17,180
Accrued Salaries	23,766
Other Current Liabilities	800
Due to Other Funds	1,283
Deferred Revenue	158,585
Total Liabilities	201,614
Fund Balance	
Unreserved:	
Undesignated	1,281,961
Total Liabilities and Fund Balances	<u>\$ 1,483,575</u>
Fund balance of governmental fund	\$ 1,281,961
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,071,449
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Compensated Absences Payable	(33,457)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	158,585
Net assets of governmental activities	<u>\$ 2,478,538</u>

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Revenues, Expenditures and Changes in Fund Balance -
Governmental Fund
Year Ended June 30, 2009

	Fire Protection
REVENUES	
Fire Protection Special Tax	\$ 1,183,804
Investment Income	25,754
Fines, Penalties and Other	68,977
Grants	43,896
	1,322,431
Total Revenues	1,322,431
EXPENDITURES	
Staff Payroll and Benefits	748,093
Volunteer Payroll and Benefits	123,934
Facilities Maintenance and Supplies	12,343
Utilities	25,759
Outside Services	29,115
Miscellaneous	18,491
Insurance	19,745
Overhead	32,686
Safety	2,653
Training	10,163
Communications	116,003
Fire Prevention	3,464
Emergency Medical Services	6,014
Apparatus Maintenance	64,088
Uniforms	11,487
Capital Outlay	143,790
	1,367,828
Total Expenditures	1,367,828
Excess (Deficiency) of Revenues Over Expenditures	(45,397)
Fund Balances, Beginning	1,402,378
Prior Period Adjustment	(75,020)
	(75,020)
Fund Balances, Ending	\$ 1,281,961

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Fund to the Statement of Activities
Year Ended June 30, 2009

Net change in fund balances-total governmental funds \$ (45,397)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as an expenditure in the full amount as current financial resources are used. However, in the Statement of Activities the cost of these assets is allocated over the estimated useful life as depreciation expens

Capital Outlay	106,473
Depreciation	(128,430)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as governmental fund expenditures

Net Change in Compensated Absences	(3,408)
------------------------------------	---------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This is the net change in deferred revenue for the current period.

158,585

Change in Net Assets of Governmental Activities

\$ 87,823

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Twentynine Palms Water District
Statement of Net Assets
Proprietary Fund
June 30, 2009

ASSETS

Current Assets:

Cash	\$ 103,305
Temporary Investments	5,660,283
Accounts Receivable:	
Water, Net of Allowance for Doubtful Accounts of \$288,000;	489,750
Assessments, Net of Allowance for Doubtful Accounts of \$208,645;	117,616
Other	9,962
Accrued Interest Receivable	22,503
Due from Other Funds	1,283
Materials Inventory	159,952
Prepaid Expenses and Other	<u>56,269</u>
Total Current Assets	<u>6,620,923</u>

Noncurrent Assets

Restricted Cash	356,750
Restricted Temporary Investments	300,000
Capital Assets Not Being Depreciated:	
Land	299,930
Construction in Progress	2,126,793
Capital Assets, Net of Accumulated Depreciation	23,013,750
Deferred Charges	<u>18,825</u>
Total Noncurrent Assets	<u>26,116,048</u>
Total Assets	<u>\$ 32,736,971</u>

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Net Assets
Proprietary Fund - Continued
June 30, 2009

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 83,623
Accrued Salaries	4,703
Other Current Liabilities	44,778
Deposits	296,286
Accrued Interest Payable	<u>16,801</u>

Total Current Liabilities	<u>446,191</u>
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Liabilities Payable from Restricted Assets:

Accrued Interest Payable	19,177
Current Portion of Long-Term Debt	<u>520,608</u>

Total Liabilities Payable from Restricted Assets	<u>539,785</u>
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Noncurrent Liabilities:

Compensated Absences Payable	51,256
Long-term Debt	<u>2,649,058</u>

Total Noncurrent Liabilities	<u>2,700,314</u>
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Total Liabilities	<u>3,686,290</u>
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NET ASSETS

Investment in Capital Assets, Net of Related Debt	22,270,807
Restricted for Debt Service	57,695
Restricted for Construction	215,082
Unrestricted	<u>6,507,097</u>

Total Net Assets	<u><u>\$ 29,050,681</u></u>
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The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
Year Ended June 30, 2009

OPERATING REVENUES

Water Sales	\$ 1,930,913
Ready to Serve Charges	955,985
Other Charges	122,474
	3,009,372
Total Operating Revenues	3,009,372

OPERATING EXPENSES

Source of Supply	281,922
Pumping	136,126
Transmission and Distribution	236,253
Customer Accounts	115,645
General Plant	887,111
Engineering	108,466
General and Administrative	898,692
Depreciation and Amortization	1,052,425
	3,716,640
Total Operating Expenses	3,716,640

Operating Income (Loss)	(707,268)
-------------------------	-----------

NON-OPERATING REVENUES (EXPENSES)

Water Availability Assessments	581,581
Investment Income	136,980
Property Leases	112,602
Other	35,563
Interest on Long-Term Debt	(124,645)
	742,081
Total Non-Operating Revenues (Expenses)	742,081

Income before contributions and transfers	34,813
---	--------

Capital Contributions	80,000
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Change in Net Assets	114,813
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Total Net Assets, Beginning	28,529,568
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Prior Period Adjustments	406,300
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Total Net Assets, Ending	\$ 29,050,681
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The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 2,990,464
Cash Payments for Employee Services	(1,183,730)
Cash Payments to Suppliers for Goods and Services	<u>(1,459,349)</u>
Net Cash Provided (Used) By Operating Activities	<u>347,385</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Water Availability Assessments	581,581
Property Leases	112,602
Other	35,563
Advances to other funds	<u>(4,060)</u>
Net Cash Provided (Used) By Non-Capital Financing Activities	<u>725,686</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Loan Payments	(256,189)
Principal Payments - Certificates of Participation	(245,132)
Interest Paid	(131,155)
Acquisition, Construction or Improvement of Capital Assets	<u>(725,641)</u>
Net Cash (Used) By Capital and Related Financing Activities	<u>(1,358,117)</u>

CASH FLOWS FROM INVESTING ACTIVITIES - INTEREST RECEIVED

	<u>158,222</u>
Net Increase in Cash and Cash Equivalents	(126,824)
Cash and Cash Equivalents - Beginning of Year	<u>6,547,162</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 6,420,338</u></u>

CASH AND CASH EQUIVALENTS - END OF YEAR INCLUDE:

Current Assets:	
Cash	\$ 103,305
Temporary Investments	5,660,283
Restricted Assets:	
Cash	356,750
Temporary Investments	<u>300,000</u>
Totals	<u><u>\$ 6,420,338</u></u>

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Income	\$ (707,268)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	1,052,425
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(19,621)
(Increase) Decrease in Inventory and Prepaid Expenses	843
Increase (Decrease) in Accounts Payable and Accrued Expenses	12,970
Increase (Decrease) in Deposits	12,713
Increase (Decrease) in Other Payable - Restricted	(21,576)
Increase (Decrease) in Compensated Absences Payable	<u>16,899</u>
Total Cash Provided By Operating Activities	<u><u>\$ 347,385</u></u>

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
1	Summary of Significant Accounting Policies	12 - 16
2	Cash and Temporary Investments	16 - 18
3	Assessments	18
4	Interfund Balances	19
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Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Twentynine Palms Water District (the "District") was formed in 1954 under the County Water District Law, Division 12 of the Water Code of the State of California, for the purpose of supplying potable water and for other statutory purposes, including fire protection. The District is governed by a five-member Board of Directors whose members are elected by the registered voters in the District to staggered four-year terms.

The Board of Directors and officers of the District at June 30, 2009 are as follows:

NAME	BOARD MEMBER	OFFICER	TERM EXPIRES
Philip C. Cisneros	Member	President	12/04/09
Kerron E. Moore, Jr.	Member	Vice-President	12/02/11
Milford J. Yockey	Member	Director	12/04/09
Alan R. Anthony	Member	Director	12/04/09
Chris Gallagher	Member	Director	12/02/11
Mike Wright		General Manager, Board Secretary	
V. Wayne Jones		Contracted Finance Manager	

The Board of Directors meets the fourth Wednesday of each month.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of more significant policies:

Reporting Entity

The District and the Twentynine Palms Water District Financing Corporation (the "Corporation") have a financial and operational relationship which meets the reporting entity definition criteria of the Government Accounting Standard Board ("GASB") Statement No. 14, "The Financial Reporting Entity", for inclusion of the Corporation as component unit of the District. Accordingly, the financial activities of the Corporation have been included in the financial statements of the District.

The Corporation is governed by a five-member board appointed by the District board. Although it is legally separated from the District, the Corporation is reported as a blended component unit of the primary government because its sole purpose is to provide financing assistance to the District for construction and acquisition of major capital facilities.

Government-Wide and Fund Financial Statements

The basic financial statements of the Twentynine Palms Water District have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for governmental accounting and financial reporting purposes.

Government-wide Statements: The Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities,

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide and Fund Financial Statements - Continued

which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the District include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items that are properly not included among program revenues are reported instead as general revenues.

Fund Financial Statements: Separate financial statements are provided for the governmental fund and proprietary fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Fire assessment taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, intergovernmental revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and therefore have been recognized as revenues within the current fiscal period. Only that portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue within the current period. All other revenue items are considered to be measurable and available only when cash is received.

The government reports the following major governmental fund:

The *Fire Protection Fund* is used to account for the District's fire activities.

The government reports the following major proprietary fund:

The *Water Fund* is used to account for the District's utility services.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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.

Deposits and Investments

Investments for the District are reported at fair value.

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Inventories

Inventories are valued at cost, using the first-in, first out method.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses/expenditures, as appropriate, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property Tax

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	March 1	
Levy Year	July 1 to June 30	
Due Dates	November 1	1 st Installment
	February 1	2 nd Installment
Delinquent Dates	December 10	1 st Installment
	April 10	2 nd Installment

Under California law, property taxes and other charges (such as assessments) are assessed and collected by counties up to 1% of assessed value, plus other increases approved by voters. Property tax revenues are pooled and then allocated to cities based on complex formulas prescribed by state statutes. While the Water District does not share in nor receive any property tax revenues from the County of San Bernardino, the County does bill and collect assessments for the District through the County's property tax billing process.

Restricted Assets

Amounts shown as restricted assets have been restricted by either bond indenture, by law, or contractual obligations to be used for specified purposes, such as servicing bonded debt and construction of capital assets.

Current Liabilities (Payable from Restricted Assets)

Certain liabilities, including the current portion of long-term debt, have been classified as current liabilities (payable from restricted assets) because they will be funded from restricted assets.

Capital Assets

Property and equipment in the Governmental Activities and Proprietary Funds of the District are recorded at cost, or if donated, at approximate value on the date contributed. Contributed assets are recorded at the developer's cost or at the value determined by the developer at the date of contribution. Capital assets are defined by the District as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Assets are depreciated using the straight-line method over their estimated useful lives as follows:

	<u>Years</u>
Buildings	20 - 50
Improvements	20 - 70
Pumping and Treatment Equipment	10 - 25
Office Equipment	3 - 10
Other Equipment	3 - 20
Vehicles	5

Allowance for Uncollectible Accounts

The District provides an allowance for uncollectible accounts based upon prior experience and management's assessment of the collectibility of existing specific accounts.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Unbilled Services

Unbilled water services are accrued at year-end.

Compensated Absences Liability

Employees are entitled to accumulate vacation leave. The total accumulated vacation time shall not exceed that amount earned by the employee in two years, not to exceed a maximum of 24 days per year, 48 days in a two year period. The employee will be required to accept compensation in lieu of vacation for the vacation time accrued in excess of the maximum in January of each year. Upon termination of employment for any reason, the District shall compensate the employee for his/her accumulated vacation time at his/her straight time rate of pay at the time of termination. In accordance with generally accepted accounting principles, the liability is reflected on the balance sheet and the current year allocation has been expensed.

Sick leave with pay will be granted to each employee at the rate of (1) day per month. Accumulated sick leave will not be paid to employees upon termination of employment. In December of each year, as long as a water department employee has accrued in excess of 5 days sick leave, he/she may choose to either be paid for any sick leave in excess of the 5 days or leave it to accumulate. Employees who do not utilize unused sick leave accrued in excess of 5 days between December 1st and November 30th each year, may be reimbursed at the rate of 100% if they have been employed during the entire period. Fire department employees have the same option to be reimbursed for excess accrued sick leave; however, they can only be reimbursed for accruals in excess of 12 days. This payment shall be included in the December payroll. In accordance with generally accepted accounting principles, the liability is reflected on the balance sheet and the current year allocation has been expensed.

2) CASH AND TEMPORARY INVESTMENTS

Cash and Investments are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash	\$ 114,203
Temporary Investments	6,921,798
Restricted:	
Cash	356,750
Temporary Investments	<u>300,000</u>
Total Cash and Investments	<u>\$ 7,692,751</u>

Cash and investments consist of the following:

Cash on Hand	\$ 1,550
Deposits with Financial Institutions	469,403
Investments	<u>7,221,798</u>
Total Cash and Investments	<u>\$ 7,692,751</u>

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

2) CASH AND TEMPORARY INVESTMENTS - Continued

Restricted Cash and Temporary Investments

Restricted cash and temporary investments of \$356,750 and \$300,000 respectively, are temporarily restricted as to withdrawal or use for other than current operations. The District has temporarily restricted these deposits and investments for the acquisition or construction of non-current assets and the liquidation of long-term debts.

Investments Authorized by the California Government Code and the District's Investment Policy

The District's investment policy authorizes investment in the local government pool administered by the State of California (LAIF). The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Disclosures Relating to 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. One of the ways that the District manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2009, the District had the following investments.

			<u>Maturity Date</u>
State Investment Pool (LAIF)	\$	7,221,798	N/A

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
State Investment Pool (LAIF)	\$	7,221,798	N/A			\$ 7,221,798

Concentration of Credit Risk

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of year end, the District had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

2) CASH AND TEMPORARY INVESTMENTS - Continued

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by 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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2009, \$106,750 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts 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 that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Each local government may invest up to \$40,000,000 in the Fund. Investments in LAIF are highly liquid assets and are secured by the full faith and credit of the State of California. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$2,296,565,000. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

The yield of LAIF for the quarter ended June 30, 2009 was 1.50%. The estimated amortized cost and fair value of the LAIF Pool at June 30, 2009 was \$50,784,426,116 and \$50,850,687,766, respectively. The District's share of the Pool at June 30, 2009 was approximately .014202 percent.

3) ASSESSMENTS

The Proprietary Fund receives water availability assessments of \$30 for each parcel that is one acre or less, whether serviced or unserviced. These amounts are increased by amounts ranging from \$7.50 to \$8.00 per acre for incremental acreage.

The Governmental Fund receives fire suppression special tax of \$80 for each unit. The units range in size from .25 to 1.0 for residential and from 1.0 to 4.0 for commercial, industrial and institutional units. The non-residential units are based on the formula of one unit per each 3,000 square foot or portion thereof, or one unit per business/occupancy, whichever is greater. All parcels (improved or unimproved) greater than 5.0 acres shall be taxed an additional amount of \$2.00 per acre for each acre, or portion thereof, in excess of 5.0 acres. The large parcel amount shall not exceed the amount of \$150.00 per parcel per fiscal year and shall be in addition to the basic tax amount imposed upon any parcel greater than 5.0 acres.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

4) INTERFUND BALANCES

The Water fund has advanced to the Fire Fund \$1,283 to cover current year expenditures. Repayment is expected in the 2009-10 fiscal year.

5) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital Assets, Not Depreciated:				
Land and Improvements	\$ 299,930	\$	\$	\$ 299,930
Construction in Progress	<u>1,460,636</u>	<u>700,837</u>	<u>(34,680)</u>	<u>2,126,793</u>
Total Capital Assets				
Not Depreciated	<u>1,760,566</u>	<u>700,837</u>	<u>(34,680)</u>	<u>2,426,723</u>
Capital Assets, Being Depreciated:				
Source of Supply Plant	8,517,294			8,517,294
Pumping Plant	505,734			505,734
Transmission and Distribution Plant	26,593,833	505,381*		27,099,214
Buildings	755,421			755,421
Office Equipment	504,849	4,063		508,912
Transportation/Heavy Equipment	846,908	36,340		883,248
Radio and Communication Equipment	160,762			160,762
Field Equipment and Tools	<u>314,049</u>			<u>314,049</u>
Total Capital Assets Being				
Depreciated	<u>38,198,850</u>	<u>545,784</u>	<u>-</u>	<u>38,744,634</u>
Less: Accumulated Depreciation	<u>(14,678,459)</u>	<u>(1,052,425)</u>	<u>-</u>	<u>(15,730,884)</u>
Total Capital Assets Being				
Depreciated, Net	<u>23,520,391</u>	<u>(506,641)</u>	<u>-</u>	<u>23,013,750</u>
Business-type Activities Capital Assets, Net of Depreciation	<u>\$ 25,280,957</u>	<u>\$ 194,196</u>	<u>\$ (34,680)</u>	<u>\$ 25,440,473</u>
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land	<u>\$ 57,519</u>	<u>\$</u>	<u>\$</u>	<u>\$ 57,519</u>
Capital Assets Being Depreciated:				
Structures	707,828	78,450		786,278
Fire Trucks	1,255,600	4,118		1,259,718
Fire Equipment	428,827	6,599		435,426
Communication Equipment	57,915	17,306		75,221
Office Equipment	<u>47,142</u>			<u>47,142</u>
Total Capital Assets Being				
Depreciated	<u>2,497,312</u>	<u>106,473</u>	<u>-</u>	<u>2,603,785</u>
Less: Accumulated Depreciation	<u>(1,461,425)</u>	<u>(128,430)</u>	<u>-</u>	<u>(1,589,855)</u>
Total Capital Assets Being				
Depreciated, Net	<u>1,035,887</u>	<u>(21,957)</u>	<u>-</u>	<u>1,013,930</u>
Government Activities Capital Assets, Net of Depreciation	<u>\$ 1,093,406</u>	<u>\$ (21,957)</u>	<u>\$ -</u>	<u>\$ 1,071,449</u>

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

5) CAPITAL ASSETS - Continued

* Included in additions is a prior period adjustment of \$406,300. See prior period adjustment Note 9.

Depreciation expense was charged to functions/programs of the primary government as follows:

Business-type Activities:	
Water	\$ 1,052,425
Governmental Activities:	
Fire Protection	\$ 128,430

6) DEFERRED CHARGES

As of June 30, 2009, the District has paid off twelve of the assessment bonds in the Special Assessment District Number 4 area on behalf of property owners who have expressed to the Board of Directors that payment of the amortized assessment would cause undue hardship. The District has in turn filed liens against those properties involved. Eventually, when the property is sold, the paid assessment plus interest at 5% will be repaid to the District. Bond deferrals as of June 30, 2009 totaled \$18,825. Interest of \$28,102 has accrued on these Bond deferrals but due to the uncertainty of collection, the District will account for this interest revenue when received.

7) LONG-TERM DEBT

The following is a summary of changes in Governmental Activities and Business-type Activities Long-Term Debt for the year:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Years of Maturity</u>	<u>Amount Authorized</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities									
Compensated Absences					\$ 30,049	\$ 24,571	\$ 21,163	\$ 33,457	
Governmental Activities Long-term Liabilities					<u>\$ 30,049</u>	<u>\$ 24,571</u>	<u>\$ 21,163</u>	<u>\$ 33,457</u>	
Business-type Activities									
Certificates of Participation - 2002 Issue	10/09/02	4.27%	2002-2012	\$ 2,386,090	\$ 1,189,446		\$ 245,132	\$ 944,314	\$ 255,711
State Department of Water Resources Loan	08/90	3.4375%	1997-2017	5,000,000	2,481,541		256,189	2,225,352	264,897
Compensated Absences					<u>34,357</u>	<u>67,325</u>	<u>50,426</u>	<u>51,256</u>	<u>-</u>
Business-type Activities Long-term Liabilities					<u>\$ 3,705,344</u>	<u>\$ 67,325</u>	<u>\$ 551,747</u>	<u>\$ 3,220,922</u>	<u>\$ 520,608</u>

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

7) LONG-TERM DEBT - Continued

2002 Refunding Certificates of Participation

On October 9, 2002, the District issued \$2,386,090 in 2002 refunding certificates of participation with an interest rate of 4.27% due through 2012. The purpose of the issuance was to advance refund \$2,810,000 of outstanding 1992 certificates of participation with interest rates ranging from 5.00% to 7.10%. Net revenues of the District are pledged to retirement of the certificates of participation. The net proceeds of \$2,352,990 (after payment of \$33,100 in underwriting fees and other insurance costs), plus \$346,539 from the Reserve Fund of the 1992 certificates of participation and \$250,000 from the District were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 certificates. The 1992 certificates were paid off based on the prepayment price plus accrued interest and the refunded certificates are no longer outstanding.

State of California, Department of Water Resources Loan

The District contracted with the State of California, Department of Water Resources, for a loan under the Water Conservation and Water Quality Bond Law. Proceeds from the loan were used for the Phase I District Pipeline Replacement. As of June 30, 2009, the District had received \$4,872,379 of \$5,000,000 approved under the loan agreement. Interest is payable semiannually at 3.4375% per annum from the date loan drawdowns are received from the State. Semiannual principal payments are due on April 1 and October 1, commencing April, 1997, over a loan amortization period of 20 years.

The District has agreed to provide for the accumulation of necessary reserves in accordance with Section 12 of the Contract to assure that funds will be available to make the semiannual payments when due. A reserve of two semiannual payments is required to be accumulated during the first ten-year period. This reserve shall be maintained at this level thereafter with the withdrawals being replaced at the same original rates until the reserve is returned to the maximum amount. The reserve fund shall be maintained and administered by the Fiscal Agent.

The Reserve Fund may be established in lump sum payments at the District's option as follows: One lump sum deposited with the Fiscal Agent prior to the 10th Principal and Interest payment becoming due; Prior to the 20th Principal and Interest payment becoming due one additional lump sum deposit will be made to bring the account balance to \$347,768.

The District exercised this option and made a deposit of \$173,884 with the Fiscal Agent prior to March 31, 2001.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

7) LONG-TERM DEBT - Continued

State of California, Department of Water Resources Loan Continued)

Future debt maturities are as follows:

	2002 COPS		DWR Loan	
	Principal	Interest	Principal	Interest
2010	\$ 255,711	\$ 37,621	\$ 264,897	\$ 74,247
2011	266,745	26,586	274,081	65,063
2012	278,258	15,074	283,474	55,670
2013	143,600	3,066	293,509	45,636
2014			303,588	35,556
2015-2017			805,803	42,060
Total	<u>\$ 944,314</u>	<u>\$ 82,347</u>	<u>\$ 2,225,352</u>	<u>\$ 318,232</u>

8) DISTRICT EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)

Plan Description

The Twentynine Palms Water District contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The contract offers a “3% at 60” for Miscellaneous Plan Members and “3% at 55” for Safety Plan Members. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and District ordinance. Copies of CalPERS’ annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 8% for the Miscellaneous Plan or 9% for the Safety Plan of their annual covered salary. The Twentynine Palms Water District makes the contributions required of District employees on their behalf and for their account. The District is also required to contribute at an actuarially determined rate. The required employer contribution rates for the fiscal year 2008-09 was 12.416% for Miscellaneous employees, and 14.532% for Safety employees. The contribution requirements for plan members are established by state statute and the employer contribution rates are established and may be amended by CalPERS.

THREE YEAR TREND INFORMATION FOR MISCELLANEOUS PLAN

Fiscal Year	Required Contribution	Percentage Contributed
6/30/07	149,105	100%
6/30/08	138,082	100%
6/30/09	155,857	100%

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

8) DISTRICT EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) - Continued

Funding Policy - Continued

THREE YEAR TREND INFORMATION FOR SAFETY PLAN

Fiscal Year	Required Contribution	Percentage Contributed
6/30/07	76,760	100%
6/30/08	78,625	100%
6/30/09	95,633	100%

9) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2009, the District participated in the following public entity risk pools:

Association of California Water Agencies Joint Powers Insurance Authority

The District is a participant in the Association of California Water Agencies Joint Powers Insurance Authority ("JPIA"), which was organized for the purpose of providing liability insurance for the member agencies. The JPIA is a risk-pooling self-insurance authority created under the provisions of California Government Code Section 6500.

The JPIA is governed by a board consisting of a representative from each member agency. The board controls the operations of the JPIA, including selections of management and approval of operating budgets.

The purpose of the JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. At June 30, 2009, the District participation in the self-insurance programs of the JPIA was as follows:

Property loss is insured up to replacement value with deductibles ranging from \$1,000 to \$15,000 per occurrence: The JPIA is self-insured up to \$50,000 per occurrence and has purchased excess insurance coverage.

General liability is insured up to \$10,000,000 per occurrence with \$10,000 deductible: the JPIA is self-insured up to \$500,000 and has purchased excess insurance coverage.

Auto liability is insured up to \$10,000,000 per occurrence with \$1,000 deductible: the JPIA is self-insured up to \$500,000 per occurrence with \$1,000 deductible for property damage and has purchased excess insurance coverage.

Special District's Workers' Compensation Authority

The District is a participant in the Special District's Workers' Compensation Authority (the "Authority") (formerly California Special Districts Association). The Authority was created for the purpose of providing workers' compensation insurance to its member agencies. The Authority is a risk-pooling insurance authority created under the provisions of California Government Code Section 6500.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2009

9) RISK MANAGEMENT - Continued

Special District's Workers' Compensation Authority - Continued

The Authority is governed by a Board of Directors consisting of three members appointed by the Board and four members elected by the participating agencies, with no more than one director from any district serving at the same time. The board controls the operation of the Authority. Liabilities under this program are accrued and changed to expense when the claims are reasonably determinable and when the existence of the Authority's liability is probable. The District's total coverage limit is \$10,000,000.

10) PRIOR PERIOD ADJUSTMENTS

The prior period adjustment of \$105,069 in the Governmental Activities section of the Statement of Activities is to adjust the allowance for doubtful accounts for the assessments receivable to reflect the proper balance from the prior period. The prior period adjustment of \$75,020 in the Statement of Revenues, Expenditures, and Changes in Fund Balance is a result of the \$105,069 adjustment described above, and to remove \$30,049 of compensated absences payable recorded in the governmental funds in previous years. The prior period adjustment of \$406,300 in the Proprietary Fund and the Business-Type Activities section of the Statement of Activities is to record capital assets contributed to the District in previous years.

REQUIRED SUPPLEMENTARY INFORMATION

Twentynine Palms Water District
Notes to Required Supplementary Information
Year Ended June 30, 2009

1. BUDGETARY DATA

Annual budgets adopted by the Board of Directors provide for operations, debt service and capital expenditures of the District. On or before the second week in February, heads of all departments submit requests for appropriations to the Finance Manager, who compiles the requests and submits a comprehensive budget to the governing board. The board conducts public meetings on the proposed budget during the months of March through June. On or before June 30, the budget is adopted by the board. The appropriated budget is prepared by fund. Budgetary controls are set by the board. There were supplemental budgetary appropriations during the year ended June 30, 2009, in the amount of \$54,524 in the Fire Protection Fund.

Twentynine Palms Water District
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - Governmental Fund Type - Fire Protection
Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Fire Protection Special Tax	\$ 1,228,000	\$ 1,228,000	\$ 1,183,804	\$ (44,196)
Investment Income	38,000	38,000	25,754	(12,246)
Fines, Penalties and Other	50,676	50,676	68,977	18,301
Grants	-	52,990	43,896	(9,094)
	<u>1,316,676</u>	<u>1,369,666</u>	<u>1,322,431</u>	<u>(47,235)</u>
Total Revenues				
EXPENDITURES				
Staff Payroll and Benefits	707,334	707,334	748,093	(40,759)
Volunteer Payroll and Benefits	108,980	108,980	123,934	(14,954)
Facilities Maintenance and Supplies	11,000	11,000	12,343	(1,343)
Utilities	29,000	29,000	25,759	3,241
Outside Services	23,800	23,800	29,115	(5,315)
Miscellaneous	19,100	19,100	18,491	609
Insurance	60,000	60,000	19,745	40,255
Overhead	32,686	32,686	32,686	-
Safety	3,500	3,500	2,653	847
Training	15,000	15,000	10,163	4,837
Communications	109,500	109,500	116,003	(6,503)
Fire Prevention	4,000	4,000	3,464	536
Emergency Medical Services	5,000	5,000	6,014	(1,014)
Apparatus Maintenance	74,000	74,000	64,088	9,912
Uniforms	13,500	13,500	11,487	2,013
Capital Outlay	42,576	97,100	143,790	(46,690)
Other Expenses	10,000	10,000	-	10,000
	<u>1,268,976</u>	<u>1,323,500</u>	<u>1,367,828</u>	<u>(44,328)</u>
Total Expenditures				
Excess of Revenues Over Expenditures	<u>\$ 47,700</u>	<u>\$ 46,166</u>	(45,397)	<u>\$ (91,563)</u>
Fund Balance - Beginning			1,402,378	
Prior Period Adjustment			<u>(75,020)</u>	
Fund Balance - End			<u>\$ 1,281,961</u>	