

TWENTYNINE PALMS WATER DISTRICT
ANNUAL FINANCIAL REPORT
For the year ended June 30, 2013

**Twentynine Palms Water District
Annual Financial Report
For the year ended June 30, 2013**

TABLE OF CONTENTS

	<u>Page</u>
I. INDEPENDENT AUDITOR'S REPORT	1
II. MANAGEMENT DISCUSSION AND ANALYSIS	3
III. BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Fund	17
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	19
Statement of Net Position - Proprietary Fund	20
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	22
Statement of Cash Flows - Proprietary Fund	23
Notes to Financial Statements	25
IV. REQUIRED SUPPLEMENTARY INFORMATION	
Notes to Required Supplementary Information	43
Budgetary Comparison Schedule - Governmental Fund Type - Fire Protection	44
Schedule of Funding Progress for TPWDPRMBP	45



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Twentynine Palms Water District (the District), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Implementation of new pronouncement

As discussed in Note 1 of the financial statements, the District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress, as listed in the table of contents, 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 our report dated October 9, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the District's internal control over financial reporting and compliance.

Rogers Anderson Malooly & Scott, LLP

San Bernardino, CA
October 9, 2013

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, 2013. 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, 2013 by \$32,860,348 (*net position*). It is important to note that this amount represents assets less liabilities. Accordingly, some assets are not available to meet the near-term financial requirements of the District. Of this amount, \$6,548,066 (*unrestricted net position*) 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.
- The District's total net position increased by \$45,756. This increase was attributable to an excess of revenues over expenses for the year of \$172,981 and a prior period adjustment of (\$127,225).
- As of June 30, 2013, the District's governmental fund (the Fire Department) reported unrestricted net position of \$1,374,251, a decrease of \$133,537; while the business-type fund (the Water Department) unrestricted net position increased by \$252,040.
- The District's total debt, including compensated absences and excluding the net OPEB obligation, decreased by \$1,554,448 during the fiscal year. The decrease was due to the payment of regularly scheduled debt installments and the early payoff of the State Department of Water Revenues loan.
- Total expenses of the Water fund decreased \$80,667; or approximately 2 percent, and total Fire fund expenses (excluding capital outlay) decreased by \$28,731; or approximately 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 is comprised of 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 Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position 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 this report as listed in the table of contents.

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 this report as listed in the table of contents.

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 this report as listed in the table contents.

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 this report as listed in the table contents.

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 this report as listed in the table of contents.

District-wide Financial Analysis

As noted earlier, net position 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 \$32,860,348 at the close of the most recent fiscal year.

By far the largest portion of the District's net position, \$26,312,282, or 80 percent, 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 Position

	Governmental Activities - Fire		Business-type Activities - Water		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 1,436,891	\$ 1,618,319	\$ 6,033,948	\$ 6,103,628	\$ 7,470,839	\$ 7,721,947
Capital assets	737,185	961,381	25,575,097	26,623,972	26,312,282	27,585,353
Total assets	<u>\$ 2,174,076</u>	<u>\$ 2,579,700</u>	<u>\$ 31,609,045</u>	<u>\$ 32,727,600</u>	<u>\$ 33,783,121</u>	<u>\$ 35,307,300</u>
Long-term liabilities						
outstanding	\$ 22,677	\$ 25,366	\$ 379,191	\$ 1,392,670	\$ 401,868	\$ 1,418,036
Other liabilities	39,963	85,165	480,942	989,507	520,905	1,074,672
Total liabilities	<u>\$ 62,640</u>	<u>\$ 110,531</u>	<u>\$ 860,133</u>	<u>\$ 2,382,177</u>	<u>\$ 922,773</u>	<u>\$ 2,492,708</u>
Net position:						
Net investment in capital assets	\$ 737,185	\$ 961,381	\$ 25,575,097	\$ 25,062,862	\$ 26,312,282	\$ 26,024,243
Restricted for debt	-	-	-	360,786	-	360,786
Unrestricted	1,374,251	1,507,788	5,173,815	4,921,775	6,548,066	6,429,563
Total net position	<u>\$ 2,111,436</u>	<u>\$ 2,469,169</u>	<u>\$ 30,748,912</u>	<u>\$ 30,345,423</u>	<u>\$ 32,860,348</u>	<u>\$ 32,814,592</u>

The unrestricted net position of \$6,548,066 may be used to meet the District's ongoing obligations to citizens and creditors. The District's restricted net position were \$0.00 as of June 30, 2013.

At the end of the current fiscal year, the Twentynine Palms Water District is able to report positive balances in all categories of net position, 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 position increased during the current fiscal year. This change was the result of a increase in net position invested in capital assets of \$288,039; a decrease in debt and construction restricted net position from \$360,786 in 2012 to \$0.00 in 2013; and an increase in unrestricted net position of \$118,503.

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.

	Governmental Activities - Fire		Business-type Activities - Water		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Charges for service	\$ 1,276,428	\$ 1,294,943	\$ 4,618,722	\$ 4,521,922	\$ 5,895,150	\$ 5,816,865
Operating grants and contributions	4,860	3,431	-	-	4,860	3,431
Capital grants and contributions	-	-	-	-	-	-
Property leases	-	-	110,918	107,274	110,918	107,274
Investment income	2,674	3,959	11,449	18,595	14,123	22,554
Other	-	-	56,145	46,116	56,145	46,116
Total revenues	1,283,962	1,302,333	4,797,234	4,693,907	6,081,196	5,996,240
Expenses:						
Fire protection (Including depreciation and excluding capital outlay)	1,514,470	1,543,201	-	-	1,514,470	1,543,201
Water	-	-	4,389,215	4,411,094	4,389,215	4,411,094
Interest on long-term debt	-	-	4,530	63,318	4,530	63,318
Total expenses	1,514,470	1,543,201	4,393,745	4,474,412	5,908,215	6,017,613
Increase (decrease) in net assets	(230,508)	(240,868)	403,489	219,495	172,981	(21,373)
Beginning net position, restated	2,341,944	2,710,037	30,345,423	30,125,928	32,687,367	32,835,965
Ending net position	\$ 2,111,436	\$ 2,469,169	\$ 30,748,912	\$ 30,345,423	\$ 32,860,348	\$ 32,814,592

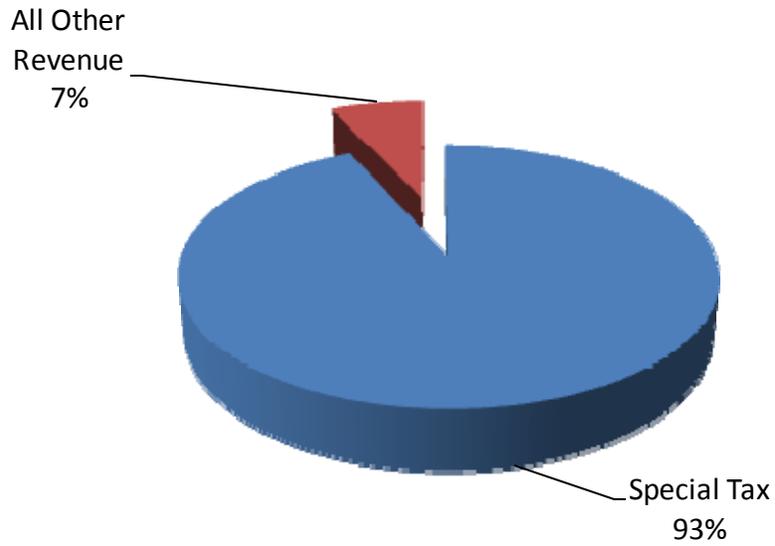
Governmental activities. Governmental activities include only the Fire Fund and the year's activity decreased the fund's net position by \$230,508 or 17.96 percent of total revenue for the year. This decrease represents 9.85 percent of the beginning net position of the fund.

Total revenue for the Fire Fund was \$1,283,962 for the year ended June 30, 2013 compared to \$1,302,333 in the prior year.

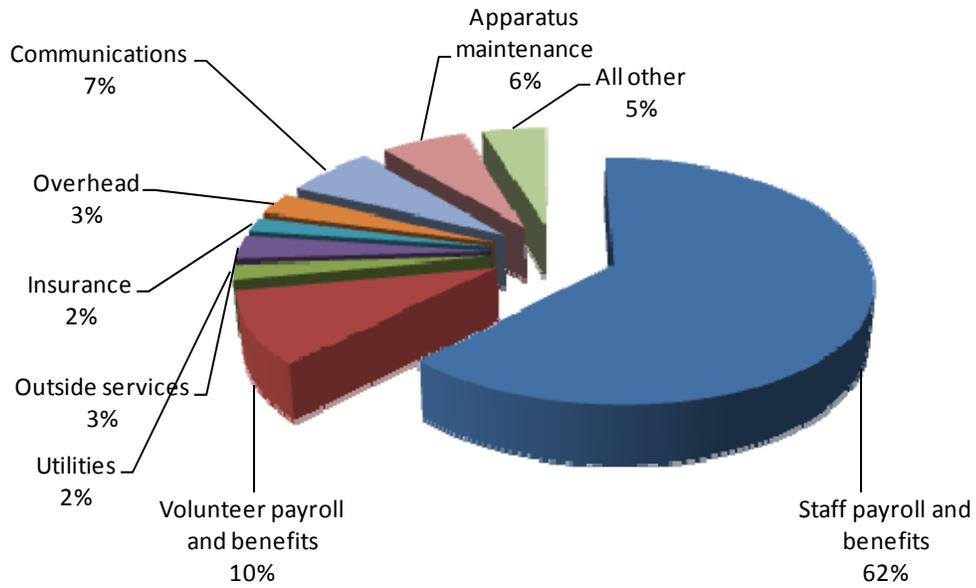
As indicated above, the vast majority of the governmental funds revenue comes from a Fire Protection Special Tax that was originally approved by the voters in 1997 and increased by the voters in 2004. This revenue source accounted for 93 percent of the fire departments total revenue for the year ended June 30, 2013.

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

Fire Department Revenue



Fire Department Expenses



Expenses (including depreciation but excluding capital outlay) decreased by \$28,731 or 1.9 percent, compared to the prior year. The decrease was primarily the result of higher payroll and benefit costs for the year.

Expenses (including capital outlay but excluding depreciation) totaled \$1,421,084 for the year, leaving a decrease to fund balance of \$164,080. The combined cost of Staff payroll and benefits, and Volunteer payroll and benefits was \$1,022,765. The next higher expense was Communications - \$95,217, followed by apparatus maintenance - \$90,287.

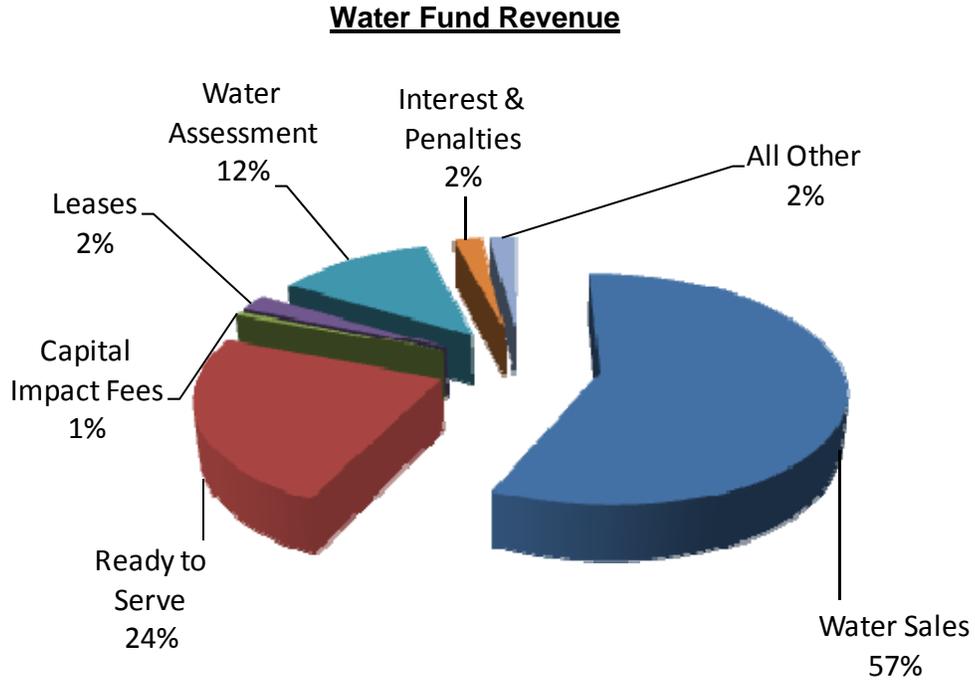
Business-type activities. These activities include only the District's proprietary fund (Water) and the financial statements provide the same type of information found in the district-wide financial statements, but in more detail.

Business-type activities increased the Water Fund's net position by \$403,489 accounting for a 1.30 percent increase. The increase was comprised of an increase in unrestricted net position of \$252,040, an increase in net position invested in capital assets of \$512,235, and a decrease in restricted net position of \$360,786.

Total revenues of business-type activities increased by \$103,327 compared to the prior year. The increase was primarily the product of higher water rates that were partially offset by no capital contributions and lower Interest Income for the year. Charges for Services increased by \$96,800 while Interest on Investments decreased by \$7,146. The District experienced a very modest level of new development during fiscal 2013. Water sales and Ready-to-serve Charges had a combined increase of \$120,793 (3.2 percent) compared to the prior year.

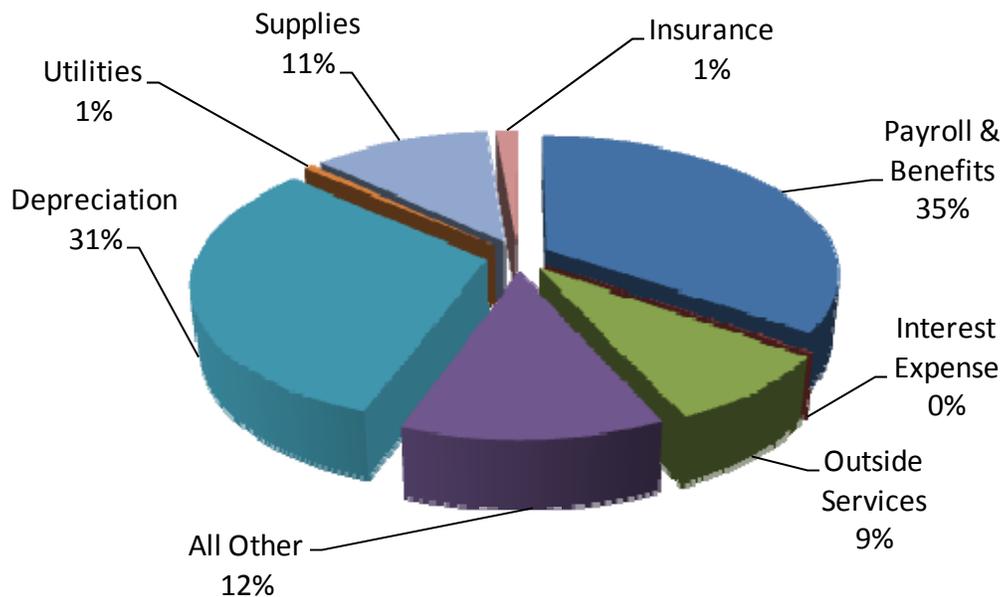
Water sales were \$2,737,665 for the year and represents 57 percent of total revenue. Other revenue sources included Ready-to-serve charges of \$1,128,369; Water availability assessments \$594,771; Investment Interest and Penalties \$105,156; Capital impact fees \$26,564; Property leases \$110,918 and all others \$93,791. During the year ended June 30, 2013, there were only minor changes in the District's sources of revenue. Water sales, Property leases, and All Others increased as a percent of the total while all other categories of expenses remained decreased modestly from the prior year.

The chart below displays the significant revenue sources for the year ended June 30, 2013. The District's largest revenue types are typically Water sales and Ready-to-serve charges, which together represent 81 percent of the Water Fund's total revenue for the year. Water sales are based on the amount of water delivered to the customer while the Ready-to-serve rates are based on the capacity of the service. Water rates increased in July 2010 and again in July 2011.



Total Business-type operating expenses decreased \$21,879 or .49 percent from the prior year. The decrease in expenses was primarily from lower employee costs that decreased \$157,254, but were offset by increases in supplies of \$81,697 and other costs. The decreases experienced in employee costs were primarily due to a lower OPEB and retirement expense. The increase in utility expense was the result of increased electric usage at the fluoride removal plant due to an increase in the volume of water treated. As shown in the chart below, payroll and benefits represent 35 percent of total expenses while depreciation accounts for 31 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 only a small percentage of total expenses and has continued to have a lower impact on costs over time. In July 2013, the District paid off all of its outstanding debt, without any penalties for early payoff thus the significant decrease in interest expense.

Water Fund Expenses



Government Fund (Fire Department) Budgetary Highlights

During the fiscal year there was no need for any amendments to increase either the original estimated revenues or original budgeted appropriations.

Actual total revenues were \$16,004 over 2013 budgeted amounts for the year. \$17,679 of that amount was from an increase in fines, penalties and other revenues offset by minor variances in other revenues categories. Expenditures were under budget by \$59,618 primarily due to lower payroll and benefits. Special tax revenue was \$2,209 under estimate.

The most significant variance in the budget for fiscal year 2012-13 was from apparatus maintenance which had an unfavorable variance of \$14,287. Those over-budget expenses were absorbed by budget savings in other categories of the budget and accordingly did not require any budget amendment.

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets for its combined governmental and business type activities totals \$26,312,282 (net of accumulated depreciation) as of June 30, 2013. This investment in capital assets includes land, buildings, vehicles, wells, reservoirs, transmission mains, machinery, vehicles, fire-fighting equipment and other equipment. The decrease in the District's combined investment in capital assets for the current fiscal year was the result of depreciation for the year being more than the cost of new capital assets acquired or placed in service during the year.

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

	Governmental Activities - Fire		Business-type Activities - Water		Total	
	2013	2012	2013	2012	2013	2012
Land, and improvements	\$ 57,519	\$ 57,519	\$ 632,996	\$ 632,996	\$ 690,515	\$ 690,515
Buildings and structures	811,954	811,954	903,075	903,075	1,715,029	1,715,029
Vehicles and heavy mobile equipment	1,382,493	1,509,718	1,355,495	1,155,289	2,737,988	2,665,007
Machinery and equipment	557,789	557,789	971,849	1,051,229	1,529,638	1,609,018
Infrastructure	-	-	42,176,544	42,014,217	42,176,544	42,014,217
Construction in progress	-	-	156,978	124,670	156,978	124,670
Accumulated depreciation	(2,072,570)	(1,975,599)	(20,621,840)	(19,257,504)	(22,694,410)	(21,233,103)
Total	\$ 737,185	\$ 961,381	\$ 25,575,097	\$ 26,623,972	\$ 26,312,282	\$ 27,585,353

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

Long-term debt. At the end of the current fiscal year, the Twentynine Palms Water District had no bonded debt outstanding. In July of 2013, the District paid off, in full its State of California Department of Water Resources loan.

Twentynine Palms Water District's Outstanding Debt

Revenue Bonds

	Governmental Activites - Fire		Business-type Activites - Water		Total	
	2013	2012	2013	2012	2013	2012
Revenue bonds - Total	\$ -	\$ -	\$ -	\$ 1,546,499	\$ -	\$ 1,546,499

The District's total debt, excluding compensated absences, decreased by \$1,546,499 or 100 percent during the current fiscal year. The decrease was the result of regularly scheduled principal payments made during the year as well as the early payoff of the State loan.

Additional information on the District's long-term debt can be found in note 6 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 Position
June 30, 2013

	Governmental activities	Business-type activities	Total
ASSETS			
Cash	\$ 8,536	\$ 192,651	\$ 201,187
Temporary investments	850,132	4,602,742	5,452,874
Accounts receivable, net:			
Water	-	721,783	721,783
Assessments	577,735	145,768	723,503
Other	-	71,003	71,003
Accrued interest receivable	488	2,671	3,159
Material inventory	-	177,457	177,457
Prepaid expenses and other	-	101,048	101,048
Deferred charges	-	18,825	18,825
Capital assets, not being depreciated:			
Land	57,519	632,996	690,515
Construction in progress	-	156,978	156,978
Capital assets, being depreciated, net	679,666	24,785,123	25,464,789
Total assets	<u>2,174,076</u>	<u>31,609,045</u>	<u>33,783,121</u>
LIABILITIES			
Accounts payable	19,511	81,791	101,302
Accrued payroll	8,843	18,012	26,855
Other current liabilities	4,050	12,150	16,200
Customer deposits	-	359,683	359,683
Current installment of long-term debt	7,559	9,306	16,865
Noncurrent liabilities:			
Compensated absences payable	22,677	27,918	50,595
Net OPEB obligation	-	351,273	351,273
Total liabilities	<u>62,640</u>	<u>860,133</u>	<u>922,773</u>
NET POSITION			
Net investment in capital assets	737,185	25,575,097	26,312,282
Unrestricted	1,374,251	5,173,815	6,548,066
Total net position	<u>\$ 2,111,436</u>	<u>\$ 30,748,912</u>	<u>\$ 32,860,348</u>

The accompanying notes are an integral part of these financial statements.

Twentynine Palms Water District
Statement of Activities
For the year ended June 30, 2013

<u>Functions/programs</u>	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Governmental activities:				
Fire protection	\$ 1,514,470	\$ 1,276,428	\$ 4,860	\$ -
Business-type activities:				
Water	4,389,215	4,618,722	-	-
Interest on long-term debt	4,530	-	-	-
Total business-type activities	<u>4,393,745</u>	<u>4,618,722</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 5,908,215</u>	<u>\$ 5,895,150</u>	<u>\$ 4,860</u>	<u>\$ -</u>

General revenues:

Property leases
Investment income
Other

Total general revenues

Change in net position

Net position, beginning of year, as restated

Net position, end of year

The accompanying notes are an integral part of these financial statements.

Net (expense) revenue and change in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
<u>\$ (233,182)</u>	<u>\$ -</u>	<u>\$ (233,182)</u>
-	229,507	229,507
-	(4,530)	(4,530)
-	224,977	224,977
(233,182)	224,977	(8,205)
-	110,918	110,918
2,674	11,449	14,123
-	56,145	56,145
2,674	178,512	181,186
(230,508)	403,489	172,981
2,341,944	30,345,423	32,687,367
<u>\$ 2,111,436</u>	<u>\$ 30,748,912</u>	<u>\$ 32,860,348</u>

Twentynine Palms Water District
Balance Sheet
Governmental Fund
June 30, 2013

	Fire Protection
ASSETS	
Cash	\$ 8,536
Temporary investments	850,132
Accounts receivable:	
Assessments, net of allowance for doubtful accounts of \$400	577,735
Accrued interest receivable	488
Total assets	\$ 1,436,891
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 19,511
Accrued payroll	8,843
Other current liabilities	4,050
Deferred revenues	545,390
Total liabilities	577,794
Fund balance:	
Unassigned	859,097
Total fund balance	859,097
Total liabilities and fund balance	\$ 1,436,891
Fund balance of governmental fund	\$ 859,097
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	737,185
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Compensated absences payable	(30,236)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	545,390
Net position of governmental activities	\$ 2,111,436

The accompanying notes are an integral part of these financial statements.

Twentynine Palms Water District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the year ended June 30, 2013

	<u>Fire Protection</u>
REVENUES	
Fire protection special tax	\$ 1,197,791
Investment earnings	2,674
Intergovernmental	4,860
Fines, penalties and other	51,679
Total revenues	1,257,004
EXPENDITURES	
Staff payroll and benefits	887,274
Volunteer payroll and benefits	135,491
Facilities maintenance and supplies	10,113
Utilities	28,740
Outside services	46,213
Miscellaneous	10,255
Insurance	28,257
Overhead	42,161
Safety	2,216
Training	7,648
Communications	95,217
Fire prevention	4,463
Emergency medical services	3,735
Apparatus maintenance	90,287
Uniforms	13,518
Bad debt	15,496
Total expenditures	1,421,084
Net change in fund balance	(164,080)
Fund balance, beginning of year	1,023,177
Fund balance, end of year	\$ 859,097

The accompanying notes are an integral part of these financial statements.

Twentynine Palms Water District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balance of Governmental Fund to the Statement of Net Position
For the year ended June 30, 2013

Net change in fund balances-total governmental funds	\$ (164,080)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation	(96,971)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental fund.	
Net change in compensated absences	3,585
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.	
	<u>26,958</u>
Change in net position of governmental activities	<u><u>\$ (230,508)</u></u>

The accompanying notes are an integral part of these financial statements.

Twentynine Palms Water District
Statement of Net Position
Proprietary Fund
June 30, 2013

ASSETS	<u>Water</u>
Current assets:	
Cash	\$ 192,651
Temporary investments	4,602,742
Accounts receivable, net:	
Water	721,783
Assessments	145,768
Other	71,003
Accrued interest receivable	2,671
Material inventory	177,457
Prepaid expenses and other	<u>101,048</u>
Total current assets	<u>6,015,123</u>
Noncurrent assets:	
Capital assets:	
Land	632,996
Construction in progress	156,978
Other capital assets, net	24,785,123
Deferred charges	<u>18,825</u>
Total noncurrent assets	<u>25,593,922</u>
Total assets	<u>31,609,045</u>

The accompanying notes are an integral part of these financial statements.

Twentynine Palms Water District
Statement of Net Position - continued
Proprietary Fund
June 30, 2013

LIABILITIES

Current liabilities:

Accounts payable	81,791
Accrued payroll	18,012
Other current liabilities	12,150
Customer deposits	359,683
Current portion of long-term debt	9,306
	9,306

Total current liabilities	480,942
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Noncurrent liabilities:

Compensated absences	27,918
Net OPEB obligation	351,273
	351,273

Total noncurrent liabilities	379,191
------------------------------	---------

Total liabilities	860,133
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NET POSITION

Net investment in capital assets	25,575,097
Unrestricted	5,173,815
	5,173,815

Total net position	\$ 30,748,912
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The accompanying notes are an integral part of these financial statements.

Twentynine Palms Water District
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the year ended June 30, 2013

	Water
OPERATING REVENUES	
Water sales	\$ 2,737,665
Ready to serve charges	1,154,933
Other charges	131,353
Total operating revenues	4,023,951
OPERATING EXPENSES	
Source of supply	253,756
Pumping	159,744
Transmission and distribution	370,607
Customer accounts	145,857
General plant	961,324
Engineering	7,734
General and administrative	1,125,857
Depreciation and amortization	1,364,336
Total operating expenses	4,389,215
Operating income (loss)	(365,264)
NON-OPERATING REVENUES (EXPENSES)	
Water availability charges	594,771
Investment income	11,449
Property leases	110,918
Other	56,145
Interest on long-term debt	(4,530)
Total non-operating revenues (expenses)	768,753
Change in net position	403,489
Net position, beginning of year	30,345,423
Net position, end of year	\$ 30,748,912

The accompanying notes are an integral part of these financial statements.

Twentynine Palms Water District
Statement of Cash Flows
Proprietary Fund
For the year ended June 30, 2013

	Water
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,984,886
Cash payments for services and supplies	(1,559,001)
Cash payments to employees for services	(1,435,326)
	990,559
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Water availability assessments	589,516
Property leases	110,918
Other	56,638
	757,072
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(315,461)
Loan payments	(1,402,899)
Principal payments - Certificates of Participation	(143,600)
Interest paid	(19,141)
	(1,881,101)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	12,649
	12,649
Net decrease in cash and investments	(120,821)
Cash and cash equivalents, beginning of year	4,916,214
Cash and cash equivalents, end of year	\$ 4,795,393
Cash and cash equivalents, end of year:	
Current assets:	
Cash	\$ 192,651
Temporary investments	4,602,742
	4,795,393
Totals	\$ 4,795,393

The accompanying notes are an integral part of these financial statements.

Twentynine Palms Water District
Statement of Cash Flows - continued
Proprietary Fund
For the year ended June 30, 2013

**RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating loss	\$	(365,264)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization		1,364,336
(Increase) decrease in assets:		
Accounts receivable		(74,296)
Prepaid expenses		(14,637)
Material inventory		(102)
Increase (decrease) in liabilities:		
Accounts payable		(49,506)
Accrued payroll		(23)
Customer deposits		35,231
Compensated absences		(4,364)
OPEB liability		99,184
		99,184
Net cash provided by operating activities	\$	990,559

Noncash, investing, capital and financing activities

None

The accompanying notes are an integral part of these financial statements.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

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, 2013 are as follows:

Name	Board members	Officer	Term expires
Kerron Moore, Jr.	Member	President	12/15
Nicholas Bourikas	Member	Vice President	12/15
Philip Cisneros	Member	Director	12/13
Chancey Chambers	Member	Director	12/13
Roger Shinaver	Member	Director	12/13
Tamara Alaniz		General Manager	
Cindy Byerrum		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 the 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*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, for inclusion of the Corporation as a 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 GASB is the accepted standard setting body for governmental accounting and financial reporting purposes.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Government-wide Statements: The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary 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, 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 collected 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.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

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 of 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.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* established accounting and financial reporting standards for the financial statements of state and local governments.

As a general rule the effect of inter-fund 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 principal ongoing operations. The principal 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.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Fund Equity

Fund balances in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The District considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - Amounts that cannot be spent either because they are in nonspendable form or are required to be maintained intact.

Restricted Fund Balance - Amounts that are constrained to specific purposes by state or federal laws, or externally imposed conditions by grantors or creditors.

Committed Fund Balance - Amounts that may be specified by the Board of Directors by ordinance or resolution to formally commit part of the Fire Fund's fund balance or future revenues for a specific purpose(s) or program. To change or repeal any such designation will require an additional formal Board of Director's action utilizing the same type of action that was originally used.

Assigned Fund Balance - Amounts that are constrained by the Board's intent to use specified financial resources for specific purposes, but are neither restricted nor committed. The District's fund balance policy delegates the authority to assign amounts to be used for specific purposes to the Finance Director; provided any such assignment has been included as a "line item" within an adopted budget of the Fire Department.

Unassigned Fund Balance - These are either residual positive net resources of the Fire Fund in excess of what can properly be classified in one of the other four categories, or negative balances.

Deposits and Investments

Investments for the District are reported at fair value.

For purposes of presentation in the statement of cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of change in value because of changes in interest rates. Investments purchased within three months of original maturity are considered to be cash equivalents.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Inventories

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

Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

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 percent of assessed value, plus other increases approved by voters. Property tax revenues are pooled and then allocated to agencies 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.

Implementation of new pronouncements

Beginning with the current fiscal year, the District implemented GASBS No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the government's net position.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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 collectability of existing specific accounts.

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.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Compensated Absences Liability - continued

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 percent 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 position:

Cash	\$ 201,187
Temporary investments	<u>5,452,874</u>
 Total cash and temporary investments	 <u><u>\$ 5,654,061</u></u>

Cash and investment consists of the following:

Cash on hand	\$ 1,550
Deposits with financial institutions	199,637
Investments	<u>5,452,874</u>
 Total cash and temporary investments	 <u><u>\$ 5,654,061</u></u>

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 administrated 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.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

2) CASH AND TEMPORARY INVESTMENTS, (continued)

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, 2013, the District had the following investments.

		<u>Maturity date</u>
LAIF	\$5,452,874	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.

Investment type	Amount	Minimum legal rating	Exempt from disclosure	Rating as of year-end		
				AAA	Aa	Not rated
LAIF	\$ 5,452,874	N/A	\$ -	\$ -	\$ -	\$ 5,452,874

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 percent or more of total District investments.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

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 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 District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

As of June 30, 2013, none of the District's deposits with financial institutions were in excess of federal depository insurance limits.

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 \$50,000,000 in the fund. Investments in LAIF are highly liquid assets and are secured by the full faith and credit of the State of California. 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, 2013 was 0.24 percent. The estimated amortized cost and fair value of the LAIF Pool at June 30, 2013 was \$58,812,406,570 and \$58,828,474,533, respectively. The District's share of the LAIF pool at June 30, 2013 was approximately .0092691 percent.

3) ASSESSMENTS

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

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

3) ASSESSMENTS, (continued)

The governmental fund receives a 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 nonresidential 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.

4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

Governmental activities:	Beginning balance	Additions	Deletions	Ending balance
Capital assets not being depreciated:				
Land	\$ 57,519	\$ -	\$ -	\$ 57,519
Total capital assets not being depreciated	<u>57,519</u>	<u>-</u>	<u>-</u>	<u>57,519</u>
Capital assets being depreciated:				
Structures	811,954	-	-	811,954
Fire trucks	1,382,493	-	-	1,382,493
Fire equipment	435,426	-	-	435,426
Communication equipment	75,221	-	-	75,221
Office equipment	47,142	-	-	47,142
Total capital assets being depreciated	<u>2,752,236</u>	<u>-</u>	<u>-</u>	<u>2,752,236</u>
Less accumulated depreciation	<u>(1,975,599)</u>	<u>(96,971)</u>	<u>-</u>	<u>(2,072,570)</u>
Net capital assets being depreciated	<u>776,637</u>	<u>(96,971)</u>	<u>-</u>	<u>679,666</u>
Net capital assets	<u>\$ 834,156</u>	<u>\$ (96,971)</u>	<u>\$ -</u>	<u>\$ 737,185</u>

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

4) CAPITAL ASSETS, (continued)

	Beginning balance	Additions	Deletions	Ending balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 632,996	\$ -	\$ -	\$ 632,996
Construction in progress	124,670	198,606	(166,298)	156,978
Total capital assets not being depreciated	<u>757,666</u>	<u>198,606</u>	<u>(166,298)</u>	<u>789,974</u>
Capital assets being depreciated:				
Source of supply plant	12,350,705	55,617	-	12,406,322
Pumping plant	505,734	12,971	-	518,705
Transmission and distribution plant	29,157,777	93,740	-	29,251,517
Buildings	903,075	-	-	903,075
Office equipment	528,452	-	-	528,452
Transportation/heavy equipment	1,234,670	120,825	-	1,355,495
Radio and communication equipment	160,762	-	-	160,762
Field equipment and tools	282,635	-	-	282,635
Total capital assets being depreciated	<u>45,123,810</u>	<u>283,153</u>	<u>-</u>	<u>45,406,963</u>
Less accumulated depreciation	<u>(19,257,504)</u>	<u>(1,364,336)</u>	<u>-</u>	<u>(20,621,840)</u>
Net capital assets being depreciated	<u>25,866,306</u>	<u>(1,081,183)</u>	<u>-</u>	<u>24,785,123</u>
Net capital assets	<u>\$ 26,623,972</u>	<u>\$ (882,577)</u>	<u>\$ (166,298)</u>	<u>\$ 25,575,097</u>

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

Governmental activities:	
Fire Protection	<u>\$ 96,971</u>
Business-type activities:	
Water	<u>\$ 1,364,336</u>

5) DEFERRED CHARGES

As of June 30, 2013, 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 percent will be repaid to the District. Bond deferments as of June 30, 2013 totaled \$18,825. Interest of \$38,222 has accrued on these Bond deferments but due to the uncertainty of collection, the District will account for this interest revenue when received.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

6) LONG-TERM DEBT

The following is a summary of changes in governmental activities and business-type activities long-term debt for the year:

<u>Governmental activities:</u>	Beginning balance	Additions	Deletions	Ending balance	Due within one year
Compensated absences	\$ 33,821	\$ 34,660	\$ 38,245	\$ 30,236	\$ 7,559
Total long-term debt - governmental activities	<u>\$ 33,821</u>	<u>\$ 34,660</u>	<u>\$ 38,245</u>	<u>\$ 30,236</u>	<u>\$ 7,559</u>
<u>Business-type activities:</u>					
Certificates of Participation - 2002 Issue	\$ 143,600	\$ -	\$ 143,600	\$ -	\$ -
State Department of Water Resources Loan	<u>1,402,899</u>	<u>-</u>	<u>1,402,899</u>	<u>-</u>	<u>-</u>
Total bonds and loans	1,546,499	-	1,546,499	-	-
Compensated absences	<u>41,588</u>	<u>89,839</u>	<u>94,203</u>	<u>37,224</u>	<u>9,306</u>
Total long-term debt - business-type activities	<u>\$ 1,588,087</u>	<u>\$ 89,839</u>	<u>\$ 1,640,702</u>	<u>\$ 37,224</u>	<u>\$ 9,306</u>

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 percent 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 percent to 7.10 percent. 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. During the current fiscal year, the District paid the certificates off in full.

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, 2011, the District had received \$4,872,379 of \$5,000,000 approved under the loan agreement. Interest is payable semiannually at 3.4375 percent per annum from the date loan drawdown's 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. During the current fiscal year, the District made a payment of \$1,402,899 to pay the loan in full.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

7) 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 percent at 60" for Miscellaneous Plan Members and "3 percent 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 percent for the Miscellaneous Plan or 9 percent 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 2012-13 were 16.465 percent for miscellaneous employees, and 19.567 percent 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 ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2011	\$ 178,497	100%	\$ -
June 30, 2012	224,527	100%	-
June 30, 2013	203,137	100%	-

THREE YEAR TREND INFORMATION FOR SAFETY PLAN

Fiscal year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2011	\$ 105,384	100%	\$ -
June 30, 2012	139,885	100%	-
June 30, 2013	136,738	100%	-

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

8) OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District's defined benefit postemployment healthcare plan, (Twentynine Palms Water District Post Retirement Medical Benefits Program, TPWDPRMBP), provides medical benefits to eligible District employees and spouses. TPWDPRMBP is a single employer defined benefit healthcare plan administered by the District. A menu of benefit provisions are established through the District's group health insurance plan, which covers both the active and retired members. The TPWDPRMBP does not issue a publicly available financial report.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board. The District contributes 90 percent of the employee's and 75 percent of the spouse's medical insurance premiums until age 65.

Annual OPEB Cost

The District is required to contribute the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 10.17 percent of the current annual covered payroll. The plan is financed on a pay-as-you-go basis.

Annual required contribution	\$ 144,532
Interest on net OPEB obligation	7,607
Adjustment to annual required contribution	<u>(24,775)</u>
Annual OPEB cost (expense)	127,364
Contributions made	<u>(28,180)</u>
Increase in net OPEB obligation	99,184
Net OPEB obligation, beginning of year	<u>252,089</u>
 Net OPEB obligation, end of year	 <u><u>\$ 351,273</u></u>

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

8) OTHER POST EMPLOYMENT BENEFITS, (continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

THREE-YEAR TREND INFORMATION FOR TPWDPRMBP

Fiscal year ended	Annual OPEB cost (AOC)	Percentage of OPEB cost contributed	Net OPEB obligation
June 30, 2013	\$ 127,364	22%	\$ 351,273
June 30, 2012	127,364	10%	252,089
June 30, 2011	81,187	15%	137,811

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012, was as follows:

Actuarial accrued liability (AAL)	\$ 697,138
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 697,138</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 1,420,788
UAAL as a percentage of covered payroll	49.07%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

8) OTHER POST EMPLOYMENT BENEFITS, (continued)

Actuarial Methods and Assumptions - continued

The following is a summary of the actuarial assumptions and methods:

Assumptions

Valuation date	June 30, 2012			
Actuarial cost method	Frozen attained age			
Amortization method	Level percentage of payroll			
Amortization period	30 years as of the valuation date			
Mortality	RP2000 Mortality Table w/ Scale AA for future mortality improvement to 2004.			
Age to retirement	Later of age 60 or age +1 if eligible to retire.			
Termination prior to retirement:				
Attained age	20 - 29	30 - 39	40 - 44	45+
Rate of termination	5%	5%	2%	0%
Health care trend rate	4.50%			
Investment rate of return	3.50%			

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. As of June 30, 2013 and 2012, there were no claims liabilities to be reported. During the year ended June 30, 2013, 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, 2013, the District's participation in the self-insurance programs of the JPIA was as follows:

Property loss is insured up to replacement value with deductibles starting from \$1,000: the JPIA is self-insured up to \$100,000 and has purchased excess insurance coverage.

General liability is insured up to \$60,000,000 with no deductible: the JPIA is self-insured up to \$2,000,000 and has purchased excess insurance coverage.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

9) RISK MANAGEMENT, (continued)

Auto liability is insured up to \$60,000,000 with no deductible: the JPIA is self-insured up to \$2,000,000 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.

The District's coverage consists of statutory limits per occurrence for workers compensation and \$5,000,000 for employers liability coverage, subject to various terms and conditions.

10) COMMITMENTS AND CONTINGENCIES

The District, from time to time, participates in various federal, state and local grant programs, the principal of which are subject to various program compliance audits. Accordingly, the District's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District anticipates such amounts, if any, will be immaterial.

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

11) PRIOR PERIOD ADJUSTMENT

During the current fiscal year, the District restated the 2012 governmental activities financial statements for the following:

	Amount
Net position, beginning of year, as previously reported	\$ 2,469,169
Prior period adjustment:	
Disposition of asset not previously recorded	(127,225)
Net position, beginning of year, as restated	\$ 2,341,944

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2013

12) FIRE PROTECTION

Over the past several years, the Fire Protection fund has incurred negative net changes in fund balance. The fund has also had budget deficits and is currently projected to continue along that same path. During the current year, the fund attempted to have its main revenue source (parcel tax) increased through the election process, but the measure failed to achieve the required 2/3rds vote. As a way to reduce costs, the fund has elected to close one of its two fire stations beginning June 1, 2013.

Twentynine Palms Water District
Notes to Required Supplementary Information
For the year ended June 30, 2013

1) BUDGETARY DATA

Annual budgets adopted by the Board of Directors for the Fire Fund 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.

Twentynine Palms Water District
Budgetary Comparison Schedule –
Governmental Fund Type – Fire Protection
For the year ended June 30, 2013

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
REVENUES				
Fire protection special tax	\$ 1,200,000	\$ 1,200,000	\$ 1,197,791	\$ (2,209)
Investment earnings	2,000	2,000	2,674	674
Intergovernmental	5,000	5,000	4,860	(140)
Fines, penalties and other	34,000	34,000	51,679	17,679
	<u>1,241,000</u>	<u>1,241,000</u>	<u>1,257,004</u>	<u>16,004</u>
Total revenues	<u>1,241,000</u>	<u>1,241,000</u>	<u>1,257,004</u>	<u>16,004</u>
EXPENDITURES				
Staff payroll and benefits	922,649	922,649	887,274	35,375
Volunteer payroll and benefits	148,506	148,506	135,491	13,015
Facilities maintenance and supplies	12,000	12,000	10,113	1,887
Utilities	29,700	29,700	28,740	960
Outside services	56,800	56,800	46,213	10,587
Miscellaneous	17,700	17,700	10,255	7,445
Insurance	27,372	27,372	28,257	(885)
Overhead	45,375	45,375	42,161	3,214
Safety	2,500	2,500	2,216	284
Training	11,100	11,100	7,648	3,452
Communications	99,500	99,500	95,217	4,283
Fire prevention	4,000	4,000	4,463	(463)
Emergency medical services	5,500	5,500	3,735	1,765
Apparatus maintenance	76,000	76,000	90,287	(14,287)
Uniforms	16,000	16,000	13,518	2,482
Bad debt	6,000	6,000	15,496	(9,496)
	<u>1,480,702</u>	<u>1,480,702</u>	<u>1,421,084</u>	<u>59,618</u>
Total expenditures	<u>1,480,702</u>	<u>1,480,702</u>	<u>1,421,084</u>	<u>59,618</u>
Net change in fund balance	<u>\$ (239,702)</u>	<u>\$ (239,702)</u>	(164,080)	<u>\$ 75,622</u>
Fund balance, beginning of year			<u>1,023,177</u>	
Fund balance, end of year			<u>\$ 859,097</u>	

Twentynine Palms Water District
Schedule of Funding Progress for TPWDPRMBP
For the year ended June 30, 2013

Schedule of Funding Progress for TPWDPRMBP

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll [(b-a)/c]
06/30/09	\$ -	\$ 510,496	\$ 510,496	0.0%	\$ 1,395,966	36.57%
06/30/12	-	697,138	697,138	0.0%	1,420,788	49.07%