

**Twentynine Palms Water District**  
**Annual Financial Report**  
**For the year ended June 30, 2015**

**Twentynine Palms Water District  
Annual Financial Report  
For the year ended June 30, 2015**

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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, 2015 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 as well as the State Controller's Minimum Audit Requirements for California Special Districts; 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 and the State Controller's *Minimum Audit Requirements for California Special Districts*. 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

#### PARTNERS

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Terry P. Shea, CPA  
Kirk A. Franks, CPA  
Scott W. Manno, CPA, CGMA  
Leena Shanbhag, CPA, MST, CGMA  
Jay H. Zercher, CPA (Partner Emeritus)  
Phillip H. Waller, CPA (Partner Emeritus)

#### DIRECTORS

Bradferd A. Welebir, CPA, MBA

#### MANAGERS / STAFF

Jenny Liu, CPA, MST  
Seong-Hyea Lee, CPA, MBA  
Charles De Simoni, CPA  
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Brianna Pascoe, CPA

#### MEMBERS

American Institute of  
Certified Public Accountants

*PCPS The AICPA Alliance  
for CPA Firms*

*Governmental Audit  
Quality Center*

California Society of  
Certified Public Accountants

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***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, 2015, 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 as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

### ***Emphasis of a Matter***

#### *Change in Accounting Principle*

As discussed in Note 1 of the financial statements, the District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the District's proportionate share of the plans' net pension liability and related ratios as of the measurement date, the schedules of plan contributions, and the 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in

an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by the missing information.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2015 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 Maloney & Scott, LLP*

San Bernardino, California  
October 14, 2015

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**Twentynine Palms Water District**  
**Statement of Net Position**  
**June 30, 2015**

	Governmental activities	Business-type activities	Total
<b>ASSETS</b>			
Cash	\$ 150,974	\$ 789,591	\$ 940,565
Temporary investments	1,024,829	5,970,892	6,995,721
Accounts receivable, net:			
Water	-	613,213	613,213
Assessments	165,203	95,760	260,963
Other	-	1,802	1,802
Accrued interest receivable	720	4,192	4,912
Material inventory	-	204,988	204,988
Prepaid expenses and other	8,429	92,192	100,621
AD 4 receivables	-	18,825	18,825
Capital assets, not being depreciated:			
Land	57,519	587,724	645,243
Construction in progress	-	171,100	171,100
Capital assets, being depreciated, net	511,658	22,813,262	23,324,920
Total assets	<u>1,919,332</u>	<u>31,363,541</u>	<u>33,282,873</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension-related	<u>98,539</u>	<u>158,842</u>	<u>257,381</u>
<b>LIABILITIES</b>			
Accounts payable	13,789	143,314	157,103
Accrued payroll	13,124	27,774	40,898
Unearned revenue	-	8,360	8,360
Customer deposits	-	306,902	306,902
Current installment of long-term debt	7,811	16,658	24,469
Noncurrent liabilities:			
Compensated absences payable	23,431	38,499	61,930
Net OPEB obligation	-	561,634	561,634
Long-term debt	481,797	1,290,493	1,772,290
Total liabilities	<u>539,952</u>	<u>2,393,634</u>	<u>2,933,586</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension-related	<u>167,965</u>	<u>444,341</u>	<u>612,306</u>
<b>NET POSITION</b>			
Net investment in capital assets	569,177	23,557,741	24,126,918
Unrestricted	<u>740,777</u>	<u>5,126,667</u>	<u>5,867,444</u>
Total net position	<u>\$ 1,309,954</u>	<u>\$ 28,684,408</u>	<u>\$ 29,994,362</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, 2015**

<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	\$ 1,202,652	\$ 1,261,135	\$ 21,564	\$ -
Business-type activities:				
Water	4,701,597	4,121,273	-	-
Total business-type activities	4,701,597	4,121,273	-	-
Total primary government	<u>\$ 5,904,249</u>	<u>\$ 5,382,408</u>	<u>\$ 21,564</u>	<u>\$ -</u>

General revenues:

    Property leases

    Investment income

    Other

Transfers

Total general revenues

Change in net position

Net position, beginning of year, as restated (note 12)

Net position, end of year

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



Net (expense) revenue and changes in net positions

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
\$ 80,047	\$ -	\$ 80,047
-	(580,324)	(580,324)
-	(580,324)	(580,324)
80,047	(580,324)	(500,277)
-	114,016	114,016
2,642	14,701	17,343
69,282	136,656	205,938
57,008	(57,008)	-
128,932	208,365	337,297
208,979	(371,959)	(162,980)
1,100,975	29,056,367	30,157,342
<u>\$ 1,309,954</u>	<u>\$ 28,684,408</u>	<u>\$ 29,994,362</u>

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**Twentynine Palms Water District  
Balance Sheet  
Governmental Funds  
June 30, 2015**

	Fire Protection Fund	Explorers Fund	Total
<b>ASSETS</b>			
Cash	\$ 149,739	\$ 1,235	\$ 150,974
Temporary investments	1,024,829	-	1,024,829
Accounts receivable:			
Assessments, net of allowance for doubtful accounts of \$400	165,203	-	165,203
Accrued interest receivable	720	-	720
Prepaid expenses	8,429	-	8,429
<b>Total assets</b>	<b><u>\$ 1,348,920</u></b>	<b><u>\$ 1,235</u></b>	<b><u>\$ 1,350,155</u></b>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities:			
Accounts payable	\$ 13,789	\$ -	13,789
Accrued payroll	13,124	-	13,124
<b>Total liabilities</b>	<b><u>26,913</u></b>	<b><u>-</u></b>	<b><u>26,913</u></b>
Fund balance:			
Unassigned	1,322,007	1,235	1,323,242
<b>Total fund balance</b>	<b><u>1,322,007</u></b>	<b><u>1,235</u></b>	<b><u>1,323,242</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 1,348,920</u></b>	<b><u>\$ 1,235</u></b>	<b><u>\$ 1,350,155</u></b>

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

**Twentynine Palms Water District  
Reconciliation of the Balance Sheet of Governmental Funds  
To the Statement of Net Position  
June 30, 2015**

Fund balances of governmental funds	\$	1,323,242
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.		569,177
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Net pension liability		(481,797)
Compensated absences payable		(31,242)
Deferred inflows and outflows of resources related to pensions have not been included in the governmental fund activity		
Deferred outflows		98,539
Deferred inflows		(167,965)
		98,539
		(167,965)
Net position of governmental activities	\$	1,309,954

*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 Funds**  
**For the year ended June 30, 2015**

	Fire Protection Fund	Explorers Fund	Total
<b>REVENUES</b>			
Fire protection special tax	\$ 1,261,135	\$ -	\$ 1,261,135
Investment earnings	2,642	-	2,642
Intergovernmental	16,622	-	16,622
Fines, penalties and other	69,282	-	69,282
Donations	-	4,942	4,942
	<hr/>	<hr/>	<hr/>
Total revenues	1,349,681	4,942	1,354,623
<b>EXPENDITURES</b>			
Current:			
Staff payroll and benefits	681,563	-	681,563
Volunteer payroll and benefits	119,211	-	119,211
Facilities maintenance and supplies	8,999	-	8,999
Utilities	21,358	-	21,358
Outside services	23,666	-	23,666
Miscellaneous	20,278	-	20,278
Insurance	25,837	-	25,837
Overhead	46,236	-	46,236
Training	3,921	-	3,921
Communications	85,665	-	85,665
Fire prevention	4,065	-	4,065
Emergency medical services	3,967	-	3,967
Apparatus maintenance	69,775	-	69,775
Uniforms	16,158	-	16,158
Explorers	-	3,707	3,707
	<hr/>	<hr/>	<hr/>
Total expenditures	1,130,699	3,707	1,134,406
	<hr/>	<hr/>	<hr/>
Excess of revenues over expenditures	218,982	1,235	220,217
<b>OTHER FINANCING SOURCES</b>			
Transfers in	57,008	-	57,008
	<hr/>	<hr/>	<hr/>
Total other financing sources	57,008	-	57,008
	<hr/>	<hr/>	<hr/>
Net change in fund balance	275,990	1,235	277,225
	<hr/>	<hr/>	<hr/>
Fund balance, beginning	1,046,017	-	1,046,017
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 1,322,007</u>	<u>\$ 1,235</u>	<u>\$ 1,323,242</u>

*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 Activities**  
**For the year ended June 30, 2015**

Net change in fund balances-total governmental funds	\$	277,225
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		
Depreciation		(80,784)
<p>The issuance of long-term debt provides current financial resources to governmental funds while the repayment of debt service principal and capital lease liabilities are expenditures in the governmental funds. The repayment reduces long-term liabilities in the statement of net position.</p>		
Pension - related net adjustments		12,173
<p>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.</p>		
Net change in compensated absences		365
Change in net position of governmental activities	\$	208,979

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

**Twentynine Palms Water District  
Statement of Net Position  
Proprietary Fund  
June 30, 2015**

<b>ASSETS</b>	<u>Water</u>
Current assets:	
Cash	\$ 789,591
Temporary investments	5,970,892
Accounts receivable, net:	
Water	613,213
Assessments	95,760
Other	1,802
Accrued interest receivable	4,192
Material inventory	204,988
Prepaid expenses and other	<u>92,192</u>
Total current assets	<u>7,772,630</u>
Noncurrent assets:	
AD 4 receivable	18,825
Capital assets:	
Land	587,724
Construction in progress	171,100
Other capital assets, net	<u>22,813,262</u>
Total noncurrent assets	<u>23,590,911</u>
Total assets	<u>31,363,541</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension - related	158,842

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

**Twentynine Palms Water District  
Statement of Net Position - continued  
Proprietary Fund  
June 30, 2015**

<b>LIABILITIES</b>	<u>Water</u>
Current liabilities:	
Accounts payable	\$ 143,314
Accrued payroll	27,774
Customer deposits	306,902
Current portion of long-term debt	16,658
Unearned revenue	<u>8,360</u>
Total current liabilities	<u>503,008</u>
Noncurrent liabilities:	
Compensated absences	38,499
Net OPEB obligation	561,634
Long-term debt	<u>1,290,493</u>
Total noncurrent liabilities	<u>1,890,626</u>
Total liabilities	<u>2,393,634</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension - related	<u>444,341</u>
<b>NET POSITION</b>	
Net investment in capital assets	23,557,741
Unrestricted	<u>5,126,667</u>
Total net position	<u><u>\$ 28,684,408</u></u>

*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, 2015**

	Water
<b>OPERATING REVENUES</b>	
Water sales	\$ 2,344,542
Ready to serve charges	1,090,394
Other charges	111,835
Total operating revenues	3,546,771
<b>OPERATING EXPENSES</b>	
Source of supply	269,853
Pumping	176,821
Transmission and distribution	766,264
Customer accounts	132,798
General plant	541,858
Engineering	8,876
General and administrative	1,402,526
Depreciation and amortization	1,402,601
Total operating expenses	4,701,597
Operating income (loss)	(1,154,826)
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Water availability charges	574,502
Investment income	14,701
Property leases	114,016
Other	136,656
Total non-operating revenue	839,875
Income before transfers	(314,951)
Transfers out	(57,008)
Change in net position	(371,959)
Net position, beginning as restated (note 12)	29,056,367
Net position, end of year	\$ 28,684,408

*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, 2015**

	Water
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 3,638,743
Cash payments for services and supplies	(1,468,860)
Cash payments to employees for services	(1,626,357)
Net cash provided by operating activities	543,526
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Water availability assessments	585,108
Property leases	114,016
Transfers to other fund	(57,008)
Other	145,011
Net cash provided by noncapital financing activities	787,127
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(217,373)
Principal payments - Lease payable	(3,825)
Net cash used for capital and related financing activities	(221,198)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	13,561
Net cash provided by investing activities	13,561
Net increase in cash and investments	1,123,016
Cash and cash equivalents, beginning of year	5,637,467
Cash and cash equivalents, end of year	\$ 6,760,483
Reconciliation to Statement of Net Position	
Cash and cash equivalents, end of year:	
Current assets:	
Cash	\$ 789,591
Temporary investments	5,970,892
Totals	\$ 6,760,483

*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, 2015**

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

Operating loss	\$ (1,154,826)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	1,402,601
Pension - related net adjustments	(17,162)
(Increase) decrease in assets:	
Accounts receivable	92,966
Prepaid expenses and other	5,447
Material inventory	8,793
Increase (decrease) in liabilities:	
Accounts payable	83,476
Accrued payroll	5,430
Customer deposits	(994)
Compensated absences	1,526
Net OPEB obligation	<u>116,269</u>
Net cash provided by operating activities	<u><u>\$ 543,526</u></u>

**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, 2015**

**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, 2015 are as follows:

<u>Name</u>	<u>Board members</u>	<u>Officer</u>	<u>Term expires</u>
Kerron Moore, Jr.	Member	President	12/15
Chancey Chambers	Member	Vice President	12/17
Carol Giannini	Member	Director	12/15
Anita Horn	Member	Director	12/17
Roger Shinaver	Member	Director	12/17
Ray Kolisz		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, 2015**

**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 funds 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, 2015**

**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 funds:

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

The *Explorers Fund* is used to account for the donations received from a third-party not-for-profit organization that supports the District's explorer program.

The government reports the following major proprietary fund:

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

The District has elected to follow all pronouncements of the Governmental Accounting Standards Board (GASB).

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, 2015**

**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, 2015**

**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 <sup>st</sup> Installment
	February 1	2 <sup>nd</sup> Installment
Delinquent Dates	December 10	1 <sup>st</sup> Installment
	April 10	2 <sup>nd</sup> 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*

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.



**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

*Implementation of new pronouncements (continued)*

GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

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

*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.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

*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 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.

*Pension Plans*

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**2) CASH AND TEMPORARY INVESTMENTS**

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

Statement of net position:

Cash	\$ 940,565
Temporary investments	<u>6,995,721</u>
Total cash and temporary investments	<u><u>\$ 7,936,286</u></u>

Cash and temporary investments consists of the following:

Cash on hand	\$ 1,550
Deposits with financial institutions	939,015
Deposits in state investment pool	<u>6,995,721</u>
Total cash and temporary investments	<u><u>\$ 7,936,286</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, 2015**

**2) CASH AND TEMPORARY INVESTMENTS, (continued)**

*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, 2015, the District had the following investments.

	<u>Fair Value</u>	<u>Maturity date</u>
State Investment Pool	\$6,995,721	8 months average

*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>Amount</u>	<u>Minimum legal rating</u>	<u>Not rated</u>
State Investment Pool	<u>\$ 6,995,721</u>	N/A	<u>\$ 6,995,721</u>

*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, 2015**

**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, 2015, 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. Separate LAIF financial statements are available from the California State Treasurer's Office on the Internet at [www.treasurer.ca.gov](http://www.treasurer.ca.gov).

The yield of LAIF for the quarter ended June 30, 2015 was 0.28 percent. The estimated amortized cost and fair value of the LAIF Pool at June 30, 2015 was \$69,614,988,609 and \$69,641,162,418, respectively. The District's share of the LAIF pool at June 30, 2015 was approximately .00010 percent. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$1,448 million, which represents 2.08% of the total LAIF portfolio of \$69.6 billion as of June 30, 2015. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**3) ASSESSMENTS**

The Water 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 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, 2015, was as follows:

<b>Governmental activities:</b>	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>(2,159,794)</u>	<u>(80,784)</u>	<u>-</u>	<u>(2,240,578)</u>
Net capital assets being depreciated	<u>592,442</u>	<u>(80,784)</u>	<u>-</u>	<u>511,658</u>
Net capital assets	<u>\$ 649,961</u>	<u>\$ (80,784)</u>	<u>\$ -</u>	<u>\$ 569,177</u>

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**4) CAPITAL ASSETS, (continued)**

	Beginning balance	Additions	Deletions	Ending balance
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 632,996	\$ -	\$ (45,272)	\$ 587,724
Construction in progress	237,443	298,438	(364,781)	171,100
Total capital assets not being depreciated	<u>870,439</u>	<u>298,438</u>	<u>(410,053)</u>	<u>758,824</u>
Capital assets being depreciated:				
Source of supply plant	12,425,091	17,444	(418,798)	12,023,737
Pumping plant	669,240	7,378	(242,091)	434,527
Transmission and distribution plant	29,257,023	88,005	(111,567)	29,233,461
Buildings	903,075	-	(66,475)	836,600
Office equipment	699,465	59,997	(183,214)	576,248
Transportation/heavy equipment	1,406,232	82,697	(144,845)	1,344,084
Radio and communication equipment	217,997	-	(19,109)	198,888
Field equipment and tools	282,635	168,922	(155,374)	296,183
Total capital assets being depreciated	<u>45,860,758</u>	<u>424,443</u>	<u>(1,341,473)</u>	<u>44,943,728</u>
Less accumulated depreciation	<u>(21,973,883)</u>	<u>(1,402,601)</u>	<u>1,246,018</u>	<u>(22,130,466)</u>
Net capital assets being depreciated	<u>23,886,875</u>	<u>(978,158)</u>	<u>(95,455)</u>	<u>22,813,262</u>
Net capital assets	<u>\$ 24,757,314</u>	<u>\$ (679,720)</u>	<u>\$ (505,508)</u>	<u>\$ 23,572,086</u>

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

Governmental activities:	
Fire Protection	<u>\$ 80,784</u>
Business-type activities:	
Water	<u>\$ 1,402,601</u>

**5) ASSESSMENT DISTRICT 4 (AD 4)**

As of June 30, 2014, 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, 2015 totaled \$18,825. Interest of \$44,070 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, 2015**

**6) INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS**

*Transfers to / from Other Funds*

<u>Transfers out:</u>	<u>Transfers in:</u> <u>Fire Protection</u>
Water Fund	\$ 57,008
Total	<u>\$ 57,008</u>

The amount transferred to Fire Protection from the Water Fund was the Fire Protection's share of rent revenues from the lease of a cell site on Donnell Hill. Total lease revenues for the year were \$114,016 of which 50% were transferred to the Fire Protection Fund.

**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>Governmental activities:</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Net pension liability*	\$ 643,079	\$ -	\$ 161,282	\$ 481,797	\$ -
Compensated absences	31,607	46,420	46,785	31,242	7,811
Total long-term debt - governmental activities	<u>\$ 674,686</u>	<u>\$ 46,420</u>	<u>\$ 208,067</u>	<u>\$ 513,039</u>	<u>\$ 7,811</u>
 <b><u>Business-type activities:</u></b>					
Lease payable	\$ 18,170	\$ -	\$ 3,825	\$ 14,345	\$ 3,825
Net pension liability*	1,984,225	-	704,252	1,279,973	-
Net OPEB obligation	445,365	153,403	37,134	561,634	-
Compensated absences	49,806	119,169	117,643	51,332	12,833
Total long-term debt - business-type activities	<u>\$ 2,497,566</u>	<u>\$ 272,572</u>	<u>\$ 862,854</u>	<u>\$ 1,907,284</u>	<u>\$ 16,658</u>

\* The beginning balance of the net pension liability resulted from the implementation of GASB Statement No. 68. The entire net pension liability is reported as a noncurrent liability in the accompanying Statement of Net Position in accordance with GASB Statement No. 68.



**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**7) LONG-TERM DEBT (continued)**

*Capital Lease*

During the fiscal year 2014, the District entered into a capital lease agreement for the acquisition of a copier. The term lease is five years with payments due monthly.

Year ended June 30,	Copier
2016	\$ 3,825
2017	3,825
2018	6,695
Total payments	\$ 14,345

The copier acquired through the capital lease is as follows:

Copier	\$ 19,126
Less: accumulated depreciation	(6,896)
Total	\$ 12,230

**8) DEFINED BENEFIT PENSION PLANS**

***A. General Information about the Pension Plans***

*Plan Descriptions*

The Plans are cost-sharing, multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plans regarding number of employees covered, benefit provisions, assumptions (for funding, but not account purposes), and membership information are listed in the June 30, 2013 Annual Actuarial Valuation Reports. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation reports. The actuarial valuation reports and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at [www.calpers.ca.gov](http://www.calpers.ca.gov).

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

**A. General Information about the Pension Plans (continued)**

*Benefits Provided*

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans operate under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plans' authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

The Plans' provisions and benefits in effect at June 30, 2015 are summarized below:

	<b>Miscellaneous</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensations	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	18.041%	6.25%
	<b>Safety</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 55	2.5% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensations	2.4% to 3.0%	2.4% to 3.0%
Required employee contribution rates	8%	Not Applicable in 2015
Required employer contribution rates	20.901%	Not Applicable in 2015

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

***General Information about the Pension Plans (continued)***

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plans' actuarially determined rates are based on the estimated amount necessary to pay the Plans' allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rate for the respective miscellaneous and safety plans is 8.0 and 9.0 percent of annual pay, and the employer's contribution rate is 16.866 and 20.318 percent of annual payroll. Employer contribution rates may change if plan contracts are amended. Employer Contributions for the measurement period ended June 30, 2014 for the respective miscellaneous, PEPRAs miscellaneous, and safety plans are \$397,751 (including \$256,054 to payoff the side fund), \$3,840, and \$79,683. Employer Paid Member Contributions for the measurement period ended June 30, 2014 for the respective miscellaneous, PEPRAs miscellaneous, and safety plans are \$21,603, \$-0- and \$18,801, or an average rate of 1.65, -0-, and 1.44 percent of annual payroll. The actual employer payments for the respective miscellaneous, PEPRAs miscellaneous, and safety plans of \$397,751, \$3,840, and \$79,683 made to CalPERS by the District during the measurement period ended June 30, 2014 differed from the District's proportionate share of the employer's contributions of \$423,403, \$5, and \$61,476 by \$25,652, \$3,835, and \$18,207, respectively, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

***B. Net Pension Liability***

The District's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

***B. Net Pension Liability (continued)***

*Actuarial Methods and Assumptions Used to Determine Total Pension Liability*

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

	Miscellaneous	Safety
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	Market Value of Assets	Market Value of Assets
Discount Rate	7.50%	7.50%
Inflation	2.75%	2.75%
Salary Increase (1)	3.30% - 14.20%	3.30% - 14.20%
Investment Rate of Return (2)	7.50%	7.50%
Mortality Rate Table (3)	Derived using CalPERS' membership data for all funds	
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.	

- (1) Annual increase vary by category, entry age, and duration of service
- (2) Net of pension plan investment and administrative expenses; includes inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on the table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.50 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

***B. Net Pension Liability (continued)***

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. Refer to the *sensitivity of the net pension liability to changes in the discount rate* section of this note, which provides information on the sensitivity of the net pension liability to changes in the discount rate.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

***B. Net Pension Liability (continued)***

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10<sup>1</sup></u>	<u>Real Return Year 11+<sup>2</sup></u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	(0.55%)	(1.05%)
Total	<u>100.0%</u>		

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

*Pension Plan Fiduciary Net Position*

Information about the pension plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at [www.calpers.ca.gov](http://www.calpers.ca.gov). The plans' fiduciary net position and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and Other Post-Employment Benefits (OPEB) expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

***C. Proportionate Share of Net Pension Liability***

The following table shows the Plans' proportion share of the net pension liability over the measurement period.

*Miscellaneous Plan:*

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2013 (VD)	\$ 7,290,365	\$ 5,306,188	\$ 1,984,177
Balance at: 6/30/2014 (MD)	\$ 7,724,212	\$ 6,444,274	\$ 1,279,938
Net changes during 2013-14	\$ 433,847	\$ 1,138,086	\$ (704,239)

*PEPRA Miscellaneous Plan:*

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2013 (VD)	\$ 195	\$ 147	\$ 48
Balance at: 6/30/2014 (MD)	\$ 207	\$ 172	\$ 35
Net changes during 2013-14	\$ 12	\$ 25	\$ (13)

*Safety Plan:*

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2013 (VD)	\$ 2,530,465	\$ 1,887,386	\$ 643,079
Balance at: 6/30/2014 (MD)	\$ 2,653,229	\$ 2,171,432	\$ 481,797
Net changes during 2013-14	\$ 122,764	\$ 284,046	\$ (161,282)

Valuation Date (VD), Measurement Date (MD)

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

***C. Proportionate Share of Net Pension Liability (continued)***

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website under Forms and Publications, at [www.calpers.ca.gov](http://www.calpers.ca.gov). The District's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous	PEPRA Miscellaneous	Safety
Proportion - June 30, 2013	0.06055%	0.00000%	0.01344%
Proportion - June 30, 2014	0.05179%	0.00000%	0.01284%
Change - Increase (Decrease)	(0.00876%)	0.00000%	(0.00060%)

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate*

The following presents the District's proportionate share of the net pension liability for each Plan as of the measurement date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Miscellaneous Plan's Net Pension Liability	\$ 2,304,653	\$ 1,279,938	\$ 429,552
PEPRA Miscellaneous Plan's Net Pension Liability	\$ 62	\$ 35	\$ 12
Safety Plan's Net Pension Liability	\$ 837,190	\$ 481,797	\$ 188,968

*Subsequent Events*

There were no subsequent events that would materially affect the results presented in this disclosure.



**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

***C. Proportionate Share of Net Pension Liability (continued)***

*Recognition of Gains and Losses*

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining services lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for the Plans for the 2013-14 measurement period is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

***D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions***

As of the start of the measurement period (July 1, 2013), the net pension liability for the Miscellaneous plan is \$1,984,177 (the net pension liability of the aggregate plan as of June 30, 2013 is \$3,276,668,431).

For the measurement period ending June 30, 2014 (the measurement date), the District incurred a pension expense of \$130,483 for the Plan (the pension expense for the aggregate plan for the measurement period is \$239,824,465). A complete breakdown of the pension expense is as follows:

Miscellaneous Plan			
Description	Risk Pool Amounts	Employer's Share	Percentage of Employer's Share
Service Cost	\$ 338,829,351	\$ 166,565	0.04916%
Interest on the Total Pension Liability	921,162,366	542,696	0.05891%
Recognized Differences between Expected and Actual Experience	-	-	N/A
Recognized Changes of Assumptions	-	-	N/A
Employee Contributions	(159,834,203)	(72,748)	0.04551%
Projected Earnings on Pension Plan Investments	(678,133,636)	(395,510)	0.05832%
Recognized Differences between Projected and Actual Earnings on Plan Investments	(182,199,413)	(106,265)	0.05832%
Other Changes in Fiduciary Net Position	-	-	N/A
Recognized Portion of Adjustment due to Differences in Proportions	-	2,496	N/A
Recognized Differences Between Contributions and Proportionate Share of Contributions	-	(6,751)	N/A
<b>Subtotal: Employer's Share of Expense Components</b>	<b><u>\$ 239,824,465</u></b>	<b>130,483</b>	
Changes of Benefit Terms		-	
<b>Employer's Proportionate Share of Pension Expense</b>		<b><u>\$ 130,483</u></b>	

Note: Plan administrative expenses are not displayed in the above pension expense table. Since the expected investment return of 7.50 percent is net of administrative expenses, administrative expenses are excluded from the above table, but implicitly included as part of investment earnings.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

***D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources  
Related to Pensions (continued)***

As of the start of the measurement period (July 1, 2013), the net pension liability for the PEPRA Miscellaneous plan is \$48 (the net pension liability of the aggregate plan as of June 30, 2013 is \$3,276,668,431).

For the measurement period ending June 30, 2014 (the measurement date), the District incurred a pension expense of \$1,381 for the Plan (the pension expense for the aggregate plan for the measurement period is \$239,824,465). A complete breakdown of the pension expense is as follows:

PEPRA Miscellaneous Plan			
Description	Risk Pool Amounts	Employer's Share	Percentage of Employer's Share
Service Cost	\$ 338,829,351	\$ 4,295	0.00127%
Interest on the Total Pension Liability	921,162,366	15	0.00000%
Recognized Differences between Expected and Actual Experience	-	-	N/A
Recognized Changes of Assumptions	-	-	N/A
Employee Contributions	(159,834,203)	(3,793)	0.00237%
Projected Earnings on Pension Plan Investments	(678,133,636)	(11)	0.00000%
Recognized Differences between Projected and Actual Earnings on Plan Investments	(182,199,413)	(3)	0.00000%
Other Changes in Fiduciary Net Position	-	-	N/A
Recognized Portion of Adjustment due to Differences in Proportions	-	(131)	N/A
Recognized Differences Between Contributions and Proportionate Share of Contributions	-	1,009	N/A
<b>Subtotal: Employer's Share of Expense Components</b>	<b><u>\$ 239,824,465</u></b>	<b>1,381</b>	
Changes of Benefit Terms		-	
<b>Employer's Proportionate Share of Pension Expense</b>		<b><u>\$ 1,381</u></b>	

Note: Plan administrative expenses are not displayed in the above pension expense table. Since the expected investment return of 7.50 percent is net of administrative expenses, administrative expenses are excluded from the above table, but implicitly included as part of investment earnings.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

***D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources  
Related to Pensions (continued)***

As of the start of the measurement period (July 1, 2013), the net pension liability for the Safety plan is \$643,079 (the net pension liability of the aggregate plan as of June 30, 2013 is \$4,784,321,560).

For the measurement period ending June 30, 2014 (the measurement date), the District incurred a pension expense of \$72,950 for the Plan (the pension expense for the aggregate plan for the measurement period is \$351,644,102). A complete breakdown of the pension expense is as follows:

Safety Plan			
Description	Risk Pool Amounts	Employer's Share	Percentage of Employer's Share
Service Cost	\$ 369,638,880	\$ 99,567	0.02694%
Interest on the Total Pension Liability	1,251,259,652	187,362	0.01497%
Recognized Differences between Expected and Actual Experience	-	-	N/A
Recognized Changes of Assumptions	-	-	N/A
Employee Contributions	(131,938,305)	(35,037)	0.02656%
Projected Earnings on Pension Plan Investments	(897,207,655)	(139,777)	0.01558%
Recognized Differences between Projected and Actual Earnings on Plan Investments	(240,108,470)	(37,407)	0.01558%
Other Changes in Fiduciary Net Position	-	-	N/A
Recognized Portion of Adjustment due to Differences in Proportions	-	(6,549)	N/A
Recognized Differences Between Contributions and Proportionate Share of Contributions	-	4,791	N/A
<b>Subtotal: Employer's Share of Expense Components</b>	<u>\$ 351,644,102</u>	72,950	
Changes of Benefit Terms		-	
<b>Employer's Proportionate Share of Pension Expense</b>		<u><u>\$ 72,950</u></u>	

Note: Plan administrative expenses are not displayed in the above pension expense table. Since the expected investment return of 7.50 percent is net of administrative expenses, administrative expenses are excluded from the above table, but implicitly included as part of investment earnings.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

***D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources  
Related to Pensions (continued)***

As of June 30, 2014, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

Miscellaneous Plan		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ (425,060)
Adjustment due to Differences in Proportions	6,990	-
Net Difference between Contributions and Proportionate Share of Contributions	-	(18,901)
Pension Contributions Subsequent to Measurement Date	141,711	-
<b>Total</b>	<b>\$ 148,701</b>	<b>\$ (443,961)</b>

PEPRA Miscellaneous Plan		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ (12)
Adjustment due to Differences in Proportions	-	(368)
Net Difference between Contributions and Proportionate Share of Contributions	2,826	-
Pension Contributions Subsequent to Measurement Date	7,315	-
<b>Total</b>	<b>\$ 10,141</b>	<b>\$ (380)</b>

Safety Plan		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ (149,627)
Adjustment due to Differences in Proportions	-	(18,338)
Net Difference between Contributions and Proportionate Share of Contributions	13,416	-
Pension Contributions Subsequent to Measurement Date	85,123	-
<b>Total</b>	<b>\$ 98,539</b>	<b>\$ (167,965)</b>

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**8) DEFINED BENEFIT PENSION PLANS (continued)**

***D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (continued)***

These amounts above are net of outflows and inflow recognized in the 2013-14 measurement period expense. \$234,149 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Miscellaneous Plan	
Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources, Net
2015	\$ (110,520)
2016	(110,520)
2017	(109,666)
2018	(106,265)
2019	-
Thereafter	-

PEPRA Miscellaneous Plan	
Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources, Net
2015	\$ 875
2016	875
2017	699
2018	(3)
2019	-
Thereafter	-

Safety Plan	
Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources, Net
2015	\$ (39,165)
2016	(39,165)
2017	(38,813)
2018	(37,406)
2019	-
Thereafter	-

***E. Payable to the Pension Plan***

At June 30, 2015, the District reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**9) 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 plan is financed on a pay-as-you-go basis.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**9) OTHER POST EMPLOYMENT BENEFITS (continued)**

*Annual OPEB Cost (continued)*

Annual required contribution	\$	144,532
Interest on net OPEB obligation		15,588
Adjustment to annual required contribution		<u>(6,717)</u>
Annual OPEB cost (expense)		153,403
Contributions made		<u>(37,134)</u>
Increase in net OPEB obligation		116,269
Net OPEB obligation, beginning of year		<u>445,365</u>
 Net OPEB obligation, end of year	 \$	 <u><u>561,634</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 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, 2015	\$ 153,403	24%	\$ 561,634
June 30, 2014	127,364	22%	445,365
June 30, 2013	127,364	10%	351,273

*Funded Status and Funding Progress*

The funded status of the plan as of June 30, 2012, based on the most recent actuarial valuation, 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)	\$	1,398,670
UAAL as a percentage of covered payroll		49.84%



**Twentynine Palms Water District  
Notes to Financial Statements  
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**9) OTHER POST EMPLOYMENT BENEFITS (continued)**

*Funded Status and Funding Progress (continued)*

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.

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%			

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**10) 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, 2015, there were no claims liabilities to be reported. During the year ended June 30, 2015, 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, 2015, 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.

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.

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**11) 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.

**12) PRIOR PERIOD RESTATEMENT**

*Change in Accounting Principle*

As discussed in Note 1, the District implemented GASB Statements No. 68 and 71 effective July 1, 2014. GASB Statements No. 68 and 71, among other provisions, amended prior guidance with respect to the reporting of pensions, and established standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the District's net pension liability was not previously recorded on the statement of net position. GASB 68 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements. The cumulative effects of applying the provisions of GASB Statements No. 68 and 71 have been reported as a restatement of beginning net position for the year ended June 30, 2015 in accordance with the Statements.

Accordingly, beginning net position on the Statement of Activities and the Statement of Revenues, Expenses, and Changes in Net Position has been restated for changes related to GASB 68 as follows:

*Government-Wide Statement of Activities*

Beginning net position, as previously reported	\$ 32,303,372
Restatement due to change in accounting principle	(2,146,030)
Beginning net position, as restated	<u>\$ 30,157,342</u>

*Proprietary Fund*  
*Water Enterprise*

Beginning net position, as previously reported	\$ 30,639,001
Restatement due to change in accounting principle	(1,582,634)
Beginning net position, as restated	<u>\$ 29,056,367</u>

**Twentynine Palms Water District  
Notes to Financial Statements  
For the year ended June 30, 2015**

**13) FIRE PROTECTION**

Over the past several years, the Fire Protection fund has incurred negative net changes in fund balance and has had budget deficits. Currently the fund had a positive net change in fund balance as a result of closing two fire stations beginning June 1, 2013. The fund continues to look for ways to reduce costs and increase revenue via the emergency services fees. On August 8, 2015, the Board approved the District to initiate the Local Agency Formation Commission (LAFCO) application procedures for the possible annexation of the Fire Protection Services to the San Bernardino County Fire District.

**Required Supplementary Information**

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**Twentynine Palms Water District**  
**Notes to Required Supplementary Information**  
**For the year ended June 30, 2015**

**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. No budget is adopted for the Explorers Fund.

**Twentynine Palms Water District  
Budgetary Comparison Schedule  
Governmental Fund Type – Fire Protection  
For the year ended June 30, 2015**

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
<b>REVENUES</b>				
Fire protection special tax	\$ 1,200,000	\$ 1,200,000	\$ 1,261,135	\$ 61,135
Investment earnings	2,000	2,000	2,642	642
Intergovernmental	2,700	2,700	16,622	13,922
Fines, penalties and other	38,000	38,000	69,282	31,282
Total revenues	<u>1,242,700</u>	<u>1,242,700</u>	<u>1,349,681</u>	<u>106,981</u>
<b>EXPENDITURES</b>				
Staff payroll and benefits	718,167	718,167	681,563	36,604
Volunteer payroll and benefits	136,500	136,500	119,211	17,289
Facilities maintenance and supplies	9,600	9,600	8,999	601
Utilities	19,850	19,850	21,358	(1,508)
Outside services	97,400	97,400	23,666	73,734
Miscellaneous	17,650	17,650	20,278	(2,628)
Insurance	27,200	27,200	25,837	1,363
Overhead	46,236	46,236	46,236	-
Safety	30,000	30,000	-	30,000
Training	9,900	9,900	3,921	5,979
Communications	90,500	90,500	85,665	4,835
Fire prevention	4,000	4,000	4,065	(65)
Emergency medical services	4,300	4,300	3,967	333
Apparatus maintenance	99,000	112,000	69,775	42,225
Uniforms	12,500	12,500	16,158	(3,658)
Total expenditures	<u>1,322,803</u>	<u>1,335,803</u>	<u>1,130,699</u>	<u>205,104</u>
Excess of revenues over expenditures	(80,103)	(93,103)	218,982	312,085
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	-	57,008	57,008
Total other financing sources	<u>-</u>	<u>-</u>	<u>57,008</u>	<u>57,008</u>
Net change in fund balance	<u>\$ (80,103)</u>	<u>\$ (93,103)</u>	275,990	<u>\$ 369,093</u>
Fund balance, beginning of year			<u>1,046,017</u>	
Fund balance, end of year			<u>\$ 1,322,007</u>	



**Twentynine Palms Water District**  
**Schedule of the District's Proportionate Share of the Miscellaneous Plan's**  
**Net Pension Liability and Related Ratios as of the Measurement Date**  
**Last 10 Years\***

	<b>Measurement Date 6/30/2014</b>
Plan's Proportion of the Net Pension Liability/(Asset)	0.02057%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 1,279,938
Plan's Covered-Employee Payroll <sup>1</sup>	\$ 856,001
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a percentage of its Covered-Employee Payroll	149.53%
Plan's Proportion of the Fiduciary Net Position <sup>2</sup>	0.06057%
Plan's Share of Risk Pool Fiduciary Net Position <sup>2</sup>	\$ 6,444,274
Plan's Additional Payments to Side Fund During Measurement Period	\$ 256,054
Plan's Proportionate Share of the Fiduciary Net Position ( <i>sum of the two preceding lines</i> )	\$ 6,700,328
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	83.43%
Plan's Proportionate Share of Aggregate Employer Contributions <sup>3</sup>	\$ 423,403

<sup>1</sup> Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

<sup>2</sup> The term Fiduciary Net Position (FNP) as used in this line denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all employers' additional side fund contributions made during the measurement period.

<sup>3</sup> The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the Measurement Period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of Fiduciary Net Position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

\* Measurement period 2013-14 (fiscal year 2014-15) was the first year of implementation, therefore, only one year is shown.

**Twentynine Palms Water District**  
**Schedule of the District's Proportionate Share of the PEPRA Miscellaneous Plan's**  
**Net Pension Liability and Related Ratios as of the Measurement Date**  
**Last 10 Years\***

	<b>Measurement Date 6/30/2014</b>
Plan's Proportion of the Net Pension Liability/(Asset)	0.00000%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 35
Plan's Covered-Employee Payroll <sup>1</sup>	\$ 61,437
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a percentage of its Covered-Employee Payroll	0.06%
Plan's Proportion of the Fiduciary Net Position <sup>2</sup>	0.000%
Plan's Share of Risk Pool Fiduciary Net Position <sup>2</sup>	\$ 172
Plan's Additional Payments to Side Fund During Measurement Period	\$ -
Plan's Proportionate Share of the Fiduciary Net Position ( <i>sum of the two preceding lines</i> )	\$ 172
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	83.09%
Plan's Proportionate Share of Aggregate Employer Contributions <sup>3</sup>	\$ 5

<sup>1</sup> Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

<sup>2</sup> The term Fiduciary Net Position (FNP) as used in this line denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all employers' additional side fund contributions made during the measurement period.

<sup>3</sup> The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the Measurement Period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of Fiduciary Net Position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

\* Measurement period 2013-14 (fiscal year 2014-15) was the first year of implementation, therefore, only one year is shown.

**Twentynine Palms Water District**  
**Schedule of the District's Proportionate Share of the Safety Plan's**  
**Net Pension Liability and Related Ratios as of the Measurement Date**  
**Last 10 Years\***

	<b>Measurement Date 6/30/2014</b>
Plan's Proportion of the Net Pension Liability/(Asset)	0.00774%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 481,797
Plan's Covered-Employee Payroll <sup>1</sup>	\$ 384,562
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a percentage of its Covered-Employee Payroll	125.28%
Plan's Proportion of the Fiduciary Net Position <sup>2</sup>	0.016%
Plan's Share of Risk Pool Fiduciary Net Position <sup>2</sup>	\$ 2,171,432
Plan's Additional Payments to Side Fund During Measurement Period	\$ -
Plan's Proportionate Share of the Fiduciary Net Position ( <i>sum of the two preceding lines</i> )	\$ 2,171,432
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	81.84%
Plan's Proportionate Share of Aggregate Employer Contributions <sup>3</sup>	\$ 61,476

<sup>1</sup> Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

<sup>2</sup> The term Fiduciary Net Position (FNP) as used in this line denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all employers' additional side fund contributions made during the measurement period.

<sup>3</sup> The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the Measurement Period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of Fiduciary Net Position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

\* Measurement period 2013-14 (fiscal year 2014-15) was the first year of implementation, therefore, only one year is shown.

**Twentynine Palms Water District  
Schedule of Plan Contributions – Miscellaneous Plan  
Last 10 Years\***

	<b>Measurement Period 2013-14</b>
Actuarially Determined Contribution	\$ 141,697
Contributions in Relation to the Actuarially Determined Contribution <sup>2</sup>	<u>(397,751)</u>
Contribution Deficiency (Excess)	<u><u>\$ (256,054)</u></u>
Covered-Employee Payroll <sup>1</sup>	\$ 853,001
Contributions as a Percentage of Covered-Employee Payroll	46.20%

<sup>1</sup> Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

<sup>2</sup> Includes side fund payoff of \$256,054.

\* Measurement period 2013-14 (fiscal year 2014-15) was the first year of implementation, therefore, only one year is shown.

**Notes to Schedule:**

Change in Benefit Terms: None

Change in Assumptions: None

**Twentynine Palms Water District  
Schedule of Plan Contributions – PEPRA Miscellaneous Plan  
Last 10 Years\***

	<b>Measurement Period 2013-14</b>
Actuarially Determined Contribution	\$ 3,840
Contributions in Relation to the Actuarially Determined Contribution	(3,840)
Contribution Deficiency (Excess)	\$ -
Covered-Employee Payroll <sup>1</sup>	\$ 61,437
Contributions as a Percentage of Covered-Employee Payroll	11.95%

<sup>1</sup> Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

\* Measurement period 2013-14 (fiscal year 2014-15) was the first year of implementation, therefore, only one year is shown.

**Notes to Schedule:**

Change in Benefit Terms: None

Change in Assumptions: None

**Twentynine Palms Water District  
Schedule of Plan Contributions – Safety Plan  
Last 10 Years\***

	<b>Measurement Period 2013-14</b>
Actuarially Determined Contribution	\$ 79,683
Contributions in Relation to the Actuarially Determined Contribution	(79,683)
Contribution Deficiency (Excess)	\$ -
Covered-Employee Payroll <sup>1</sup>	\$ 384,562
Contributions as a Percentage of Covered-Employee Payroll	20.40%

<sup>1</sup> Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

\* Measurement period 2013-14 (fiscal year 2014-15) was the first year of implementation, therefore, only one year is shown.

**Notes to Schedule:**

Change in Benefit Terms: None

Change in Assumptions: None

**Twentynine Palms Water District  
 Schedule of Funding Progress for TPWDPRMBP  
 For the year ended June 30, 2015**

**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%	1,398,670	49.84%

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