

TWENTYNINE PALMS WATER DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2010

Twentynine Palms Water District
Annual Financial Report
Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Twentynine Palms Water District, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Twentynine Palms Water District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2010, on our consideration of the District's internal control over financial reporting and on our tests of the District's compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Teaman Ramirez & Smith

September 21, 2010

Management's Discussion and Analysis

As management of the Twentynine Palms Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010. We encourage readers to consider the information contained within this overview and analysis in conjunction with the financial statements and the related notes.

Financial Highlights

- The assets of the District exceeded its liabilities at June 30, 2010 by \$32,393,016 (*net assets*). It is important to note that this amount represents assets less liabilities. Accordingly, some assets are not available to meet the near-term financial requirements of the District. Of this amount, \$6,142,946 (*unrestricted net assets*) may be used to meet the ongoing obligations to citizens and creditors of the District in addition to paying for capital projects that have been approved by the Board of Directors and appropriated but are not complete.
- The District's total net assets increased by \$863,797. This increase was attributable to the excess of revenues over expenses for the year.
- As of June 30, 2010, the District's Governmental Fund (the Fire Department) reported Unrestricted Net Assets of \$1,680,684, an increase of \$273,595; while the Business-type Fund (the Water Department) decreased by \$2,044,835. That decrease was primarily the result of significant investments in capital assets.
- The District's total debt decreased by \$520,608 or 16 percent during the fiscal year. The decrease was due to the payment of regularly scheduled debt installments. Total debt outstanding as of June 30, 2010 was \$2,649,058. All long-term debt is owed and paid by the Proprietary Fund (Water). The Governmental Fund (Fire) has no long-term debt.
- Total expenses of the Water Fund increased \$53,041; or 1.4 percent, and total Fire Fund expenses (excluding capital outlay) decreased by \$152,091 compared to the prior year.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The basic Proprietary Fund Financial Statements can be found on pages 7-11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to fully understanding the data provided in the District-wide and Fund Financial Statements. The notes to the financial statements can be found on pages 12-28 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning the District's progress in funding its obligation to provide pension benefits to its employees. Also included within the Required Supplementary Information is a budgetary comparison statement for the Governmental Fund (Fire) to demonstrate its compliance with the adopted budget. Required Supplementary Information can be found on pages 29-31 of this report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Twentynine Palms Water District, assets exceeded liabilities by \$32,393,016 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets, \$25,684,319, or 79%, reflects its investment in capital assets (e.g., land, buildings, vehicles, wells, reservoirs, transmission mains, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Twentynine Palms Water District's Net Assets

	Governmental Activities - Fire		Business-type Activities - Water		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 1,736,990	\$ 1,483,575	\$ 5,821,637	\$ 7,296,498	\$ 7,558,627	\$ 8,780,073
Capital assets	<u>960,193</u>	<u>1,071,449</u>	<u>27,383,184</u>	<u>25,440,473</u>	<u>23,184,752</u>	<u>24,085,199</u>
Total assets	<u>\$ 2,697,183</u>	<u>\$ 2,555,024</u>	<u>\$ 33,194,821</u>	<u>\$ 32,736,971</u>	<u>\$ 35,892,004</u>	<u>\$ 35,291,995</u>
Long-term liabilities outstanding	\$ 0	\$ 0	\$ 2,233,069	\$ 2,700,314	\$ 2,233,069	\$ 2,700,314
Other liabilities	<u>56,306</u>	<u>76,486</u>	<u>1,209,613</u>	<u>985,976</u>	<u>1,265,919</u>	<u>1,062,282</u>
Total liabilities	<u>\$ 56,306</u>	<u>\$ 76,486</u>	<u>\$ 3,442,682</u>	<u>\$ 3,686,290</u>	<u>\$ 3,498,988</u>	<u>\$ 3,762,776</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 960,193	\$ 1,071,449	\$ 24,724,126	\$ 22,270,807	\$ 25,684,319	\$ 23,342,256
Restricted for Debt and Construction	0	0	565,751	272,777	565,751	272,777
Unrestricted	<u>1,680,684</u>	<u>1,407,089</u>	<u>4,462,262</u>	<u>6,507,097</u>	<u>6,142,946</u>	<u>7,914,186</u>
Total net assets	<u>\$ 2,640,877</u>	<u>\$ 2,478,538</u>	<u>\$ 29,752,139</u>	<u>\$ 29,050,681</u>	<u>\$ 32,393,016</u>	<u>\$ 31,529,219</u>

The unrestricted net assets of \$6,142,946 may be used to meet the District's ongoing obligations to citizens and creditors. The District's restricted net assets were \$565,751 as of June 30, 2010.

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

District-wide total net assets increased by \$863,797 during the current fiscal year. This change was the result of an increase in net assets invested in capital assets of \$2,342,063; an increase in debt and construction restricted net assets of \$292,974; and a decrease in unrestricted net assets of \$1,771,240.

Financial Analysis of Governmental and Business-type Activities.

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

Twentynine Palms Water District's Change in Net Assets

	Governmental Activities - Fire		Business-type Activities - Water		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Charges for service	\$ 1,533,292	\$ 1,411,366	\$ 4,262,321	\$ 3,590,953	\$ 5,795,613	\$ 5,002,319
Operating Grants and Contributions	0	0	0	0	0	0
Capital Grants and Contributions	0	43,896	144,420	80,000	144,420	123,896
Property Leases	0	0	101,469	112,602	101,469	112,602
Investment Income	7,500	25,754	37,803	136,980	45,303	162,734
Other	<u>0</u>	<u>0</u>	<u>49,771</u>	<u>35,563</u>	<u>0</u>	<u>35,563</u>
Total revenues	<u>\$ 1,540,792</u>	<u>\$ 1,481,016</u>	<u>\$ 4,595,784</u>	<u>\$ 3,956,098</u>	<u>\$ 6,086,805</u>	<u>\$ 5,437,114</u>
Expenses:						
Fire Protection (Including Depreciation and excluding Capital Outlay)	\$ 1,378,453	\$ 1,393,193	\$ 0	\$ 0	\$ 1,378,453	\$ 1,393,193
Water	0	0	3,789,290	3,716,640	3,789,290	3,716,640
Interest on Long-term Debt	<u>0</u>	<u>0</u>	<u>105,036</u>	<u>124,645</u>	<u>105,036</u>	<u>124,645</u>
Total expenses	<u>\$ 1,112,566</u>	<u>\$ 1,393,193</u>	<u>\$ 3,894,326</u>	<u>\$ 3,841,285</u>	<u>\$ 5,272,779</u>	<u>\$ 5,234,478</u>
Increase (Decrease) in net assets	162,339	87,823	701,458	114,813	863,797	202,636
Prior Period Adjustment	0	(105,069)	0	406,300	0	301,231
Beginning Net assets as Restated	<u>2,478,538</u>	<u>2,495,784</u>	<u>29,050,681</u>	<u>28,529,568</u>	<u>31,529,219</u>	<u>31,025,352</u>
Ending Net assets	<u>\$ 2,640,877</u>	<u>\$ 2,478,538</u>	<u>\$ 29,752,139</u>	<u>\$ 29,050,681</u>	<u>\$ 32,393,016</u>	<u>\$ 31,529,219</u>

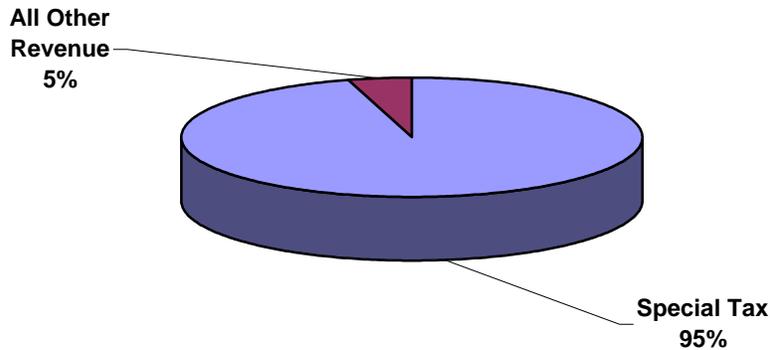
Governmental activities. Governmental activities include only the Fire Fund and the year's activity increased the fund's net assets by \$162,339 or 13 percent of total revenue for the year. This increase represents 6.5 percent of the beginning net assets of the fund.

Total revenue was \$1,540,792 for the year ended June 30, 2010 compared to \$1,481,016 in the prior year. This decrease of \$59,776 is from a decrease in interest revenue, and a decrease in capital grant revenue, partially offset by an increase in the collection of special tax revenue. \$1,216,897 of the current year's total revenue was from the Fire Protection Special Tax. Investment Income, Penalties, Grants, Fees and Other Revenue contributed the remaining \$58,008.

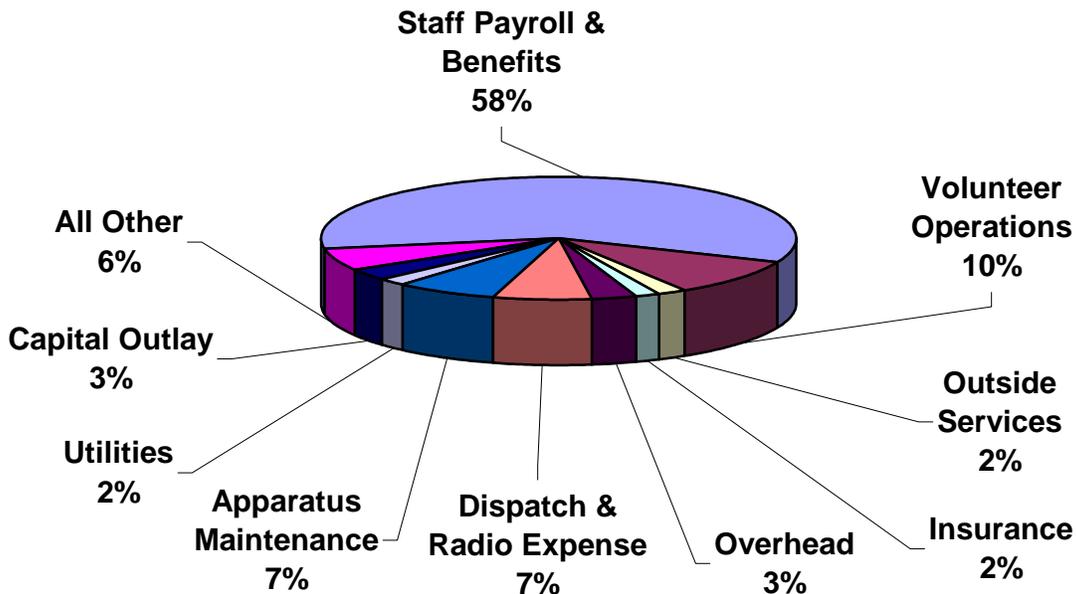
As indicated above, the vast majority of the Governmental Funds revenue comes from a Fire Protection Special Tax that was originally approved by the voters in 1997 and increased by the voters in 2004. This revenue source accounted for 95% of the Fire Departments total revenue for the year ended June 30, 2010.

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

Fire Department Revenue



Fire Department Expenses



Expenses (including capital) decreased by \$14,740 or 1 percent, compared to the prior year. The decrease was primarily the result of lower capital outlay costs for the year.

Expenses (including capital but excluding depreciation) totaled \$1,267,052 for the year, leaving an increase to fund balance of \$7,853. The combined cost of Staff Payroll, Benefits, and Volunteer Operations was \$872,381. The next higher expense was Communications – \$87,580, followed by Apparatus Maintenance - \$86,158. The expenses listed above total \$1,046,119 or 83 percent of total expenses.

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

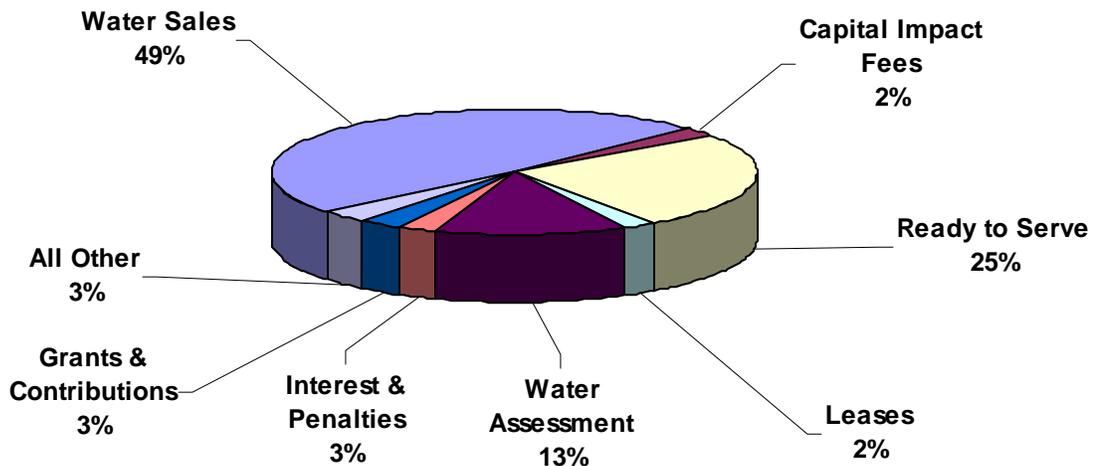
Business-type activities increased the Water Fund’s net assets by \$701,458 accounting for a 2.4 percent increase. The increase was comprised of a decrease in unrestricted net assets of \$2,044,835; an increase in net assets invested in capital assets of \$2,453,319; and an increase in restricted net assets of \$292,974.

Total Revenues of business-type activities increased by \$639,686 compared to the prior year. The increase was primarily the product of higher water and ready-to-serve rates that were partially offset by lower Interest Income. Charges for Services increased by \$602,159 while Interest on Investments decreased by \$99,177 and Capital Impact Fees with Capital Contributions increased by \$118,330. The District experienced modest new development during fiscal 2010 but at a slightly higher pace than in fiscal 2009. Meter Installation Fees decreased \$12,246. Water Sales and Ready-to-Serve charges had a combined increase of \$621,282 (22 percent) compared to the prior year. The District received Capital Contributions of \$144,420 during the current year compared to \$80,000 in 2009.

Water Sales were \$2,313,043 for the year and represents 49 percent of total revenue. Other revenue sources included Ready-to-Serve Charges of \$1,195,137; Water Availability Assessments – \$601,025; Investment Interest and Penalties - \$123,567; Capital Impact Fees - \$100,499; and Property Leases - \$101,469. During the year ended June 30, 2010, there were only minor changes in the District’s sources of revenue. Water Sales and Ready-to-Serve charges increased as a percent of the total while Interest Income and Penalties became lesser contributors to the total.

The chart below displays the significant revenue sources for the year ended June 30, 2010. The District’s largest revenue types are typically Water Sales and Ready-to-Serve charges, which together represent 74 percent of the Water Fund’s total revenue for the year. Water Sales are based on the amount of water delivered to the customer while the Ready-to-Serve rates are based on the capacity of the service. Both the water rates and the ready-to-serve rates increased in August 2009 and again in July 2010 and are approved to increase again in July 2011.

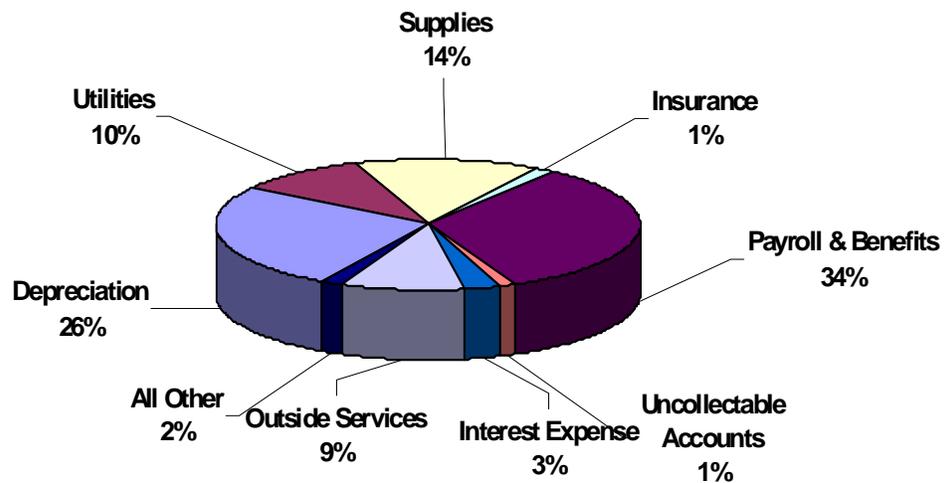
Water Fund Revenue



Total Business-type expenses increased \$53,041 or 1 percent from the prior year.

The increase in expenses was primarily attributable to higher salaries, benefits, and outside services while the cost of depreciation, interest and supplies decreased. Salaries and Benefits increased by \$161,654 and Outside Services increased by \$35,286. The decrease in Depreciation was \$32,529 while Interest decreased by \$19,609 and supplies decreased by \$147,359. Salaries and benefits saw increases from higher pay rates combined with substantial increases in the cost of employee benefits. The decrease in the cost of supplies was the result of decreases in bulk chemical pricing in fiscal year 2009-10 as well as a significant decrease in the amount of bulk chemicals purchased during the year. The District increased the amount of water being treated during fiscal 2010 compared to the prior year. As shown in the chart below, Payroll and Benefits represent 34 percent of total expenses while Depreciation accounts for 26 percent of expenses. The magnitude of these two expense categories demonstrates that the delivery of water to customers is a labor and capital intensive enterprise. Interest Expense was 3 percent of total expenses for the year and continues to be less significant as a percent of total expense.

Water Fund Expenses



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

Capital Asset and Debt Administration

Capital assets. The District’s investment in capital assets for its combined governmental and business type activities totals \$28,333,377 (net of accumulated depreciation) as of June 30, 2010. This investment in capital assets includes land, buildings, vehicles, wells, reservoirs, transmission mains, machinery, vehicles, fire-fighting equipment and other equipment. The increase in the District’s combined investment in capital assets for the current fiscal year was the result of depreciation for the year being less than the cost of new capital assets acquired or placed in service during the year. The Water Fund’s investment in capital assets increased by \$1,932,711 while the Fire Department decreased by \$111,256.

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land, and improvements	\$ 57,519	\$ 57,519	\$ 299,930	\$ 299,930	\$ 357,449	\$ 357,449
Buildings and structures	798,058	786,278	755,421	755,421	1,553,479	1,541,699
Vehicles and heavy mobile equipment	1,259,718	1,259,718	913,870	883,248	2,173,588	2,142,966
Machinery and equipment	557,789	557,789	1,039,386	983,723	1,597,175	1,541,512
Infrastructure	0	0	36,266,662	36,122,242	36,266,662	36,122,242
Construction in progress	0	0	4,848,695	2,126,793	4,848,695	2,126,793
Accumulated depreciation	(1,712,891)	(1,589,855)	(16,750,780)	(15,730,884)	(18,463,671)	(17,320,739)
Total	<u>\$ 960,193</u>	<u>\$ 1,071,449</u>	<u>\$ 27,373,184</u>	<u>\$ 25,440,473</u>	<u>\$ 28,333,377</u>	<u>\$ 26,511,922</u>

Additional information on the District’s capital assets can be found in note 5 on pages 21-22 of this report.

Long-term debt. At the end of the current fiscal year, the Twentynine Palms Water District had total bonded debt outstanding of \$2,649,058, including the portion that is due within one year - \$540,826. All of the District’s debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds) of the Water Fund. All outstanding debt was incurred for the benefit of the Water Fund and accordingly is the sole responsibility of the Water Fund.

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenue bonds - Total	\$ <u>0</u>	\$ <u>0</u>	\$ <u>2,649,058</u>	\$ <u>3,169,666</u>	\$ <u>2,649,058</u>	\$ <u>3,169,666</u>

The District’s total debt decreased by \$520,608 or 16 percent during the current fiscal year. The decrease was the result of regularly scheduled principal payments made during the year.

Additional information on the District’s long-term debt can be found in note 7 on pages 23-24 of this report.

Requests for Information

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

Twentynine Palms Water District

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 7,982	\$ 124,118	\$ 132,100
Temporary Investment:	1,253,791	3,763,360	5,017,151
Accounts Receivable			
Water - Net		614,362	614,362
Assessments - Net	465,302	130,112	595,414
Grants	9,915		9,915
Other		5,553	5,553
Accrued Interest Receivable		6,829	6,829
Internal Balances	(3,487)	3,487	-
Materials Inventory		174,643	174,643
Prepaid Expenses and Other		73,063	73,063
Deferred Charges		18,825	18,825
Restricted Assets:			
Cash		357,285	357,285
Temporary Investment:		550,000	550,000
Capital Assets Not Being Depreciated			
Land	57,519	299,930	357,449
Construction in Progress:		4,848,695	4,848,695
Capital Assets, Net of Accumulated Depreciation	902,674	22,224,559	23,127,233
Total Assets	<u>2,693,696</u>	<u>33,194,821</u>	<u>35,888,517</u>
 LIABILITIES			
Accounts Payable	12,496	275,871	288,367
Accrued Salaries and Compensated Absence	5,114	8,666	13,780
Other Current Liabilities	1,607	39,680	41,287
Deposits		315,425	315,425
Accrued Interest Payable		29,145	29,145
Long-term Debt Due within One Year		540,826	540,826
Noncurrent Liabilities:			
Compensated Absences Payable	33,602	56,019	89,621
Net OPEB Obligation		68,818	68,818
Long-term Debt		2,108,232	2,108,232
Total Liabilities	<u>52,819</u>	<u>3,442,682</u>	<u>3,495,501</u>
 NET ASSETS			
Invested in Capital Assets, Net of Related Debt	960,193	24,724,126	25,684,319
Restricted for:			
Debt Service		357,285	357,285
Construction		208,466	208,466
Unrestricted	1,680,684	4,462,262	6,142,946
Total Net Assets	<u>\$ 2,640,877</u>	<u>\$ 29,752,139</u>	<u>\$ 32,393,016</u>

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Activities
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Fire Protection	\$ 1,378,453	\$ 1,533,292	\$	\$
Business-type Activities:				
Water Enterprise	3,789,290	4,262,321		144,420
Interest on Long-term Debt	105,036			
Total Business-Type Activities	3,894,326	4,262,321	-	144,420
Total Primary Government	\$ 5,272,779	\$ 5,795,613	\$ -	\$ 144,420

General Revenues:
Property Leases
Investment Income
Other

Total General Revenues and Transfers

Change in Net Assets

Total Net Assets - Beginning

Total Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ 154,839	\$	\$ 154,839
	617,451	617,451
	(105,036)	(105,036)
-	512,415	512,415
154,839	512,415	667,254
	101,469	101,469
7,500	37,803	45,303
	49,771	49,771
7,500	189,043	196,543
162,339	701,458	863,797
2,478,538	29,050,681	31,529,219
\$ 2,640,877	\$ 29,752,139	\$ 32,393,016

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Balance Sheet
Governmental Fund
June 30, 2010

	Fire Protection
ASSETS	
Cash	\$ 7,982
Temporary Investments	1,253,791
Accounts Receivable:	
Assessments, Net of Allowance for	
Doubtful Accounts of \$400	465,302
Grants Receivable	9,915
	\$ 1,736,990
Total Assets	
LIABILITIES AND FUND BALANCES	
Accounts Payable	12,496
Accrued Salaries	5,114
Other Current Liabilities	1,607
Due to Other Funds	3,487
Deferred Revenue	424,472
	447,176
Total Liabilities	
Fund Balance	
Unreserved:	
Undesignated	1,289,814
	\$ 1,736,990
Total Liabilities and Fund Balances	
Fund balance of governmental fund	\$ 1,289,814
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	960,193
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Compensated Absences Payable	(33,602)
Other long-term assets are not available to pay for current period expenditure and are deferred in the funds	424,472
	\$ 2,640,877
Net assets of governmental activities:	

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Revenues, Expenditures and Changes in Fund Balance -
Governmental Fund
Year Ended June 30, 2010

	Fire Protection
REVENUES	
Fire Protection Special Tax	\$ 1,216,897
Investment Income	7,500
Fines, Penalties and Other	50,508
Total Revenues	1,274,905
EXPENDITURES	
Staff Payroll and Benefits	750,157
Volunteer Payroll and Benefits	122,254
Facilities Maintenance and Supplies	16,083
Utilities	24,174
Outside Services	25,725
Miscellaneous	17,856
Insurance	21,773
Overhead	35,918
Safety	3,036
Training	13,397
Communications	87,580
Fire Prevention	3,882
Emergency Medical Service:	7,059
Apparatus Maintenance	86,158
Uniforms	13,317
Capital Outlay	38,683
Total Expenditures	1,267,052
Excess (Deficiency) of Revenues Over Expenditure	7,853
Fund Balances, Beginning	1,281,961
Fund Balances, Ending	\$ 1,289,814

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Fund to the Statement of Activities
Year Ended June 30, 2010

Net change in fund balances-total governmental fund \$ 7,853

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense

Capital Outlay	11,780
Depreciation	(123,036)

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

Net Change in Compensated Absence	(145)
-----------------------------------	-------

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

265,887

Change in Net Assets of Governmental Activities

\$ 162,339

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Twentynine Palms Water District
Statement of Net Assets
Proprietary Fund
June 30, 2010

ASSETS	<u>Water</u>
Current Assets:	
Cash	\$ 124,118
Temporary Investments	3,763,360
Accounts Receivable:	
Water, Net of Allowance for	
Doubtful Accounts of \$103,000	614,362
Assessments, Net of Allowance fo	
Doubtful Accounts of \$208,645	130,112
Other	5,553
Accrued Interest Receivable	6,829
Due from Other Funds	3,487
Materials Inventory	174,643
Prepaid Expenses and Other	<u>73,063</u>
Total Current Assets	<u>4,895,527</u>
Noncurrent Assets	
Restricted Cash	357,285
Restricted Temporary Investment:	550,000
Capital Assets Not Being Depreciated	
Land	299,930
Construction in Progress	4,848,695
Capital Assets, Net of Accumulated Depreciation	22,224,559
Deferred Charges	<u>18,825</u>
Total Noncurrent Assets	<u>28,299,294</u>
Total Assets	<u>\$ 33,194,821</u>

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Net Assets
Proprietary Fund - Continued
June 30, 2010

LIABILITIES	<u>Water</u>
Current Liabilities:	
Accounts Payable	\$ 275,871
Accrued Salaries	8,666
Other Current Liabilities	39,680
Deposits	315,425
Accrued Interest Payable	29,145
Current Portion of Long-Term Debt	<u>540,826</u>
Total Current Liabilities	<u>1,209,613</u>
Noncurrent Liabilities:	
Compensated Absences Payable	56,019
Net OPEB Obligation	68,818
Long-term Debt	<u>2,108,232</u>
Total Noncurrent Liabilities	<u>2,233,069</u>
Total Liabilities	<u>3,442,682</u>
NET ASSETS	
Investment in Capital Assets, Net of Related Debt	24,724,126
Restricted for:	
Debt Service	357,285
Construction	208,466
Unrestricted	<u>4,462,262</u>
Total Net Assets	<u><u>\$ 29,752,139</u></u>

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
Year Ended June 30, 2010

	Water
OPERATING REVENUES	
Water Sales	\$ 2,313,043
Ready to Serve Charges	1,195,137
Other Charges	153,116
Total Operating Revenues	3,661,296
OPERATING EXPENSES	
Source of Supply	314,371
Pumping	144,758
Transmission and Distribution	232,386
Customer Accounts	115,441
General Plant	818,420
Engineering	46,730
General and Administrative	1,097,288
Depreciation and Amortization	1,019,896
Total Operating Expenses	3,789,290
Operating Income (Loss)	(127,994)
NON-OPERATING REVENUES (EXPENSES)	
Water Availability Assessments	601,025
Investment Income	37,803
Property Leases	101,469
Other	49,771
Interest on Long-Term Debt	(105,036)
Total Non-Operating Revenues (Expenses)	685,032
Income before contributions and transfer	557,038
Capital Contributions	144,420
Change in Net Assets	701,458
Total Net Assets, Beginning	29,050,681
Total Net Assets, Ending	\$ 29,752,139

The accompanying notes are an integral part of this statement.

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Twentynine Palms Water District
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2010

	Water
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 3,528,597
Cash Payments for Employee Services	(1,387,240)
Cash Payments to Suppliers for Goods and Services	(1,129,806)
	<u>1,011,551</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Water Availability Assessments	601,025
Property Leases	101,469
Other	47,567
	<u>750,061</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Loan Payments	(264,898)
Principal Payments - Certificates of Participation	(255,710)
Interest Paid	(111,870)
Acquisition, Construction or Improvement of Capital Assets	(2,808,186)
	<u>(3,440,664)</u>
CASH FLOWS FROM INVESTING ACTIVITIES - INTEREST RECEIVED	
	<u>53,477</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,625,575)
Cash and Cash Equivalents - Beginning of Year	<u>6,420,338</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,794,763</u>
CASH AND CASH EQUIVALENTS - END OF YEAR INCLUDE:	
Current Assets:	
Cash	\$ 124,118
Temporary Investments	3,763,360
Restricted Assets:	
Cash	357,285
Temporary Investments	550,000
	<u>550,000</u>
Totals	<u>\$ 4,794,763</u>

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Cash Flows - Continued
Proprietary Fund
Year Ended June 30, 2010

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	Water
Operating Income	\$ (127,994)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	1,019,896
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(132,699)
(Increase) Decrease in Inventory and Prepaid Expenses	(31,485)
Increase (Decrease) in Accounts Payable and Accrued Expenses	187,150
Increase (Decrease) in Deposits	19,139
Increase (Decrease) in Salaries and Compensated Absences Payable	8,726
Increase (Decrease) in Net OPEB Obligation	68,818
Total Cash Provided By Operating Activities	\$ 1,011,551
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Capital Contributions	\$ 144,420

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
1	Summary of Significant Accounting Policies	13 - 18
2	Cash and Temporary Investments	18 - 20
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Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

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, 2010 are as follows:

<u>NAME</u>	<u>BOARD MEMBER</u>	<u>OFFICER</u>	<u>TERM EXPIRES</u>
Philip C. Cisneros	Member	President	12/06/13
Kerron E. Moore, Jr.	Member	Vice-President	12/02/11
Chancey Chambers	Member	Director	12/06/13
Nicholas Bourikas	Member	Director	12/02/11
Roger Shinaver	Member	Director	12/06/13
Mike Wright		General Manager, Board Secretary	
V. Wayne Jones		Contracted Finance Manager	

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

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of 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", 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 Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for governmental accounting and financial reporting purposes.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide and Fund Financial Statements - Continued

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

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

The government reports the following major governmental fund:

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

The government reports the following major proprietary fund:

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

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

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

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

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

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

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Inventories

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

Use of Estimates

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

Property Tax

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

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

Under California law, property taxes and other charges (such as assessments) are assessed and collected by counties up to 1% 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.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

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

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

Allowance for Uncollectible Accounts

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

Unbilled Services

Unbilled water services are accrued at year-end.

Compensated Absences Liability

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

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences Liability - Continued

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

2) CASH AND TEMPORARY INVESTMENTS

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

Statement of Net Assets:	
Cash	\$ 132,100
Temporary Investments	5,017,151
Restricted:	
Cash	357,285
Temporary Investments	<u>550,000</u>
Total Cash and Investments	<u>\$ 6,056,536</u>

Cash and investments consist of the following:

Cash on Hand	\$ 1,550
Deposits with Financial Institutions	487,835
Investments	<u>5,567,151</u>
Total Cash and Investments	<u>\$ 6,056,536</u>

Restricted Cash and Temporary Investments

Restricted cash and temporary investments of \$357,285 and \$550,000 respectively, are temporarily restricted as to withdrawal or use for other than current operations. The District has temporarily restricted these deposits and investments for the acquisition or construction of non-current assets and the liquidation of long-term debt.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

2) CASH AND TEMPORARY INVESTMENTS - Continued

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

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2010, the District had the following investments.

		<u>Maturity Date</u>
LAIF	\$ 5,567,151	N/A

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
LAIF	\$ 5,567,151	N/A	\$	\$	\$	\$ 5,567,151

Concentration of Credit Risk

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

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2010, \$107,285 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Each local government may invest up to \$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. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$3,130,602,000. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

The yield of LAIF for the quarter ended June 30, 2010 was .56%. The estimated amortized cost and fair value of the LAIF Pool at June 30, 2010 was \$69,441,630,091 and \$69,555,776,591, respectively. The District's share of the Pool at June 30, 2010 was approximately .0080039 percent.

3) ASSESSMENTS

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

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

3) ASSESSMENTS - (Continued)

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

4) INTERFUND BALANCES

The Water fund has advanced the Fire Fund \$3,487 to cover current year expenditures. Repayment is expected in the 2010-11 fiscal year.

5) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land	\$ 57,519	\$	\$	\$ 57,519
Capital Assets Being Depreciated:				
Structures	786,278	11,780		798,058
Fire Trucks	1,259,718			1,259,718
Fire Equipment	435,426			435,426
Communication Equipment	75,221			75,221
Office Equipment	47,142			47,142
Total Capital Assets Being Depreciated	2,603,785	11,780	-	2,615,565
Less: Accumulated Depreciation	(1,589,855)	(123,036)	-	(1,712,891)
Total Capital Assets Being Depreciated, Net	1,013,930	(111,256)	-	902,674
Government Activities Capital Assets, Net of Depreciation	<u>\$ 1,071,449</u>	<u>\$ (111,256)</u>	<u>\$ -</u>	<u>\$ 960,193</u>

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

5) CAPITAL ASSETS - Continued

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital Assets, Not Depreciated:				
Land and Improvements	\$ 299,930	\$	\$	\$ 299,930
Construction in Progress	2,126,793	2,721,902		4,848,695
Total Capital Assets Not Depreciated	2,426,723	2,721,902	-	5,148,625
Capital Assets, Being Depreciated:				
Source of Supply Plant	8,517,294			8,517,294
Pumping Plant	505,734			505,734
Transmission and Distribution Plant	27,099,214	144,420		27,243,634
Buildings	755,421			755,421
Office Equipment	508,912	7,697		516,609
Transportation/Heavy Equipment	883,248	30,622		913,870
Radio and Communication Equipment	160,762			160,762
Field Equipment and Tools	314,049	47,966		362,015
Total Capital Assets Being Depreciated	38,744,634	230,705	-	38,975,339
Less: Accumulated Depreciation	(15,730,884)	(1,019,896)	-	(16,750,780)
Total Capital Assets Being Depreciated, Net	23,013,750	(789,191)	-	22,224,559
Business-type Activities Capital Assets, Net	\$ 25,440,473	\$ 1,932,711	\$ -	\$ 27,373,184

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

Business-type Activities:	
Water	\$ 1,019,896
Governmental Activities:	
Fire Protection	\$ 123,036

6) DEFERRED CHARGES

As of June 30, 2010, the District has paid off twelve of the assessment bonds in the Special Assessment District Number 4 area on behalf of property owners who have expressed to the Board of Directors that payment of the amortized assessment would cause undue hardship. The District has in turn filed liens against those properties involved. Eventually, when the property is sold, the paid assessment plus interest at 5% will be repaid to the District. Bond deferments as of June 30, 2010 totaled \$18,825. Interest of \$30,448 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
Year Ended June 30, 2010

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>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Compensated Absences	\$ 33,457	\$ 24,426	\$ 24,281	\$ 33,602	\$ -
Governmental Activities Long-term Liabilities	<u>\$ 33,457</u>	<u>24,426</u>	<u>\$ 24,281</u>	<u>\$ 33,602</u>	<u>\$ -</u>
Business-type Activities					
Certifications of Participation - 2002 Issue	\$ 944,314	\$ -	\$ 255,710	\$ 688,604	\$ 266,745
State Department of Water Resources Loan	2,225,352	-	264,898	1,960,454	274,081
Compensated Absences	<u>51,256</u>	<u>62,562</u>	<u>57,799</u>	<u>56,019</u>	<u>-</u>
Business-type Activities Long-term Liabilities	<u>\$ 3,220,922</u>	<u>\$ 62,562</u>	<u>\$ 578,407</u>	<u>\$ 2,705,077</u>	<u>\$ 540,826</u>

2002 Refunding Certificates of Participation

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

State of California, Department of Water Resources Loan

The District contracted with the State of California, Department of Water Resources, for a loan under the Water Conservation and Water Quality Bond Law. Proceeds from the loan were used for the Phase I District Pipeline Replacement. As of June 30, 2010, the District had received \$4,872,379 of \$5,000,000 approved under the loan agreement. Interest is payable semiannually at 3.4375% per annum from the date loan draw-downs are received from the State. Semiannual principal payments are due on April 1 and October 1, commencing April, 1997, over a loan amortization period of 20 years.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

7) LONG-TERM DEBT - Continued

State of California, Department of Water Resources Loan - Continued

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

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

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

Future debt maturities are as follows:

	2002 COPS		DWR Loan	
	Principal	Interest	Principal	Interest
2011	\$ 266,745	\$ 26,586	\$ 274,081	\$ 65,063
2012	278,258	15,074	283,474	55,670
2013	143,601	3,066	293,509	45,636
2014			303,588	35,556
2015			314,114	25,031
2016-2017			491,688	17,029
Total	\$ 688,604	\$ 44,726	\$ 1,960,454	\$ 243,985

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

Plan Description

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

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

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

Funding Policy

Participants are required to contribute 8% for the Miscellaneous Plan or 9% for the Safety Plan of their annual covered salary. The Twentynine Palms Water District makes the contributions required of District employees on their behalf and for their account. The District is also required to contribute at an actuarially determined rate. The required employer contribution rates for the fiscal year 2009-10 were 13.370% for miscellaneous employees, and 14.771% for Safety employees. The contribution requirements for plan members are established by State statute and the employer contribution rates are established and may be amended by CalPERS.

THREE YEAR TREND INFORMATION FOR MISCELLANEOUS PLAN

Fiscal Year	Required Contribution	Percentage Contributed
6/30/08	138,082	100%
6/30/09	155,857	100%
6/30/10	178,497	100%

THREE YEAR TREND INFORMATION FOR SAFETY PLAN

Fiscal Year	Required Contribution	Percentage Contributed
6/30/08	78,625	100%
6/30/09	95,633	100%
6/30/10	97,759	100%

9) OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District's defined benefit postemployment healthcare plan, (Twentynine Palms Water District Post-Retirement Medical Benefits Program, TPPRMBP), provides medical benefits to eligible District employees and spouses. TPPRMBP 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 TPPRMBP 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% of the employee's and 75% of the spouse's medical insurance premiums until age 65.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

9) OTHER POST EMPLOYMENT BENEFITS - Continued

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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 5.7% of the current annual covered payroll. The plan is financed on a pay-as-you-go basis.

Annual Required Contribution	\$	79,469
Interest on net OPEB Obligation		0
Adjustment to Annual Required Contribution		0
Annual OPEB Cost (Expense)		79,469
Contributions Made		(10,651)
Increase in Net OPEB Obligation		68,818
Net OPEB Obligation - Beginning of the Year		0
Net OPEB Obligation - End of the Year	\$	68,818

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years were as follows:

THREE-YEAR TREND INFORMATION FOR TPPRMBP			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/10	\$ 79,469	13%	\$ 68,818
6/30/09	*	*	*
6/30/08	*	*	*

*The information for the two preceding years is unavailable. GASB 45 was implemented in Fiscal Year 2010.

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009, was as follows:

Actuarial Accrued Liability (AAL)	\$	510,496
Actuarial Value of Plan Assets	\$	0
Unfunded Actuarial Accrued Liability (UAAL)	\$	510,496
Funded Ratio (Actuarial Value of Plan Assets/AAL)		0%
Covered Payroll (Active Plan Members)	\$	1,395,966
UAAL as a Percentage of Covered Payroll		36.570%

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

9) 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:

Valuation Date	June 30, 2009
Actuarial Cost Method	Frozen Attained Age
Amortization Method	Level Percent of Payroll
Amortization Period	30 Years as of the Valuation Date
Mortality	1994 Group Annuity Mortality Table w/ Scale AA for future mortality improvement to 1999
Age at 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	6.25%
Investment Rate of Return	3.50%

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2010

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. During the year ended June 30, 2010, 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, 2010, 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 ranging from \$1,000 to \$15,000 per occurrence: The JPIA is self-insured up to \$50,000 per occurrence and has purchased excess insurance coverage.

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

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

Special District's Workers' Compensation Authority

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Twentynine Palms Water District
Notes to Required Supplementary Information
Year Ended June 30, 2010

1. BUDGETARY DATA

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

Twentynine Palms Water District
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - Governmental Fund Type - Fire Protection
Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Fire Protection Special Tax	\$ 1,232,600	\$ 1,232,600	\$ 1,216,897	\$ (15,703)
Investment Income	25,000	25,000	7,500	(17,500)
Fines, Penalties and Other	32,000	32,000	50,508	18,508
	<u>1,289,600</u>	<u>1,289,600</u>	<u>1,274,905</u>	<u>(14,695)</u>
EXPENDITURES				
Staff Payroll and Benefits	731,563	731,563	750,157	(18,594)
Volunteer Payroll and Benefits	123,000	123,000	122,254	746
Facilities Maintenance and Supplies	27,500	27,500	16,083	11,417
Utilities	27,300	27,300	24,174	3,126
Outside Services	24,800	24,800	25,725	(925)
Miscellaneous	7,100	7,100	17,856	(10,756)
Insurance	65,524	65,524	21,773	43,751
Overhead	35,918	35,918	35,918	-
Safety	3,500	3,500	3,036	464
Training	14,600	14,600	13,397	1,203
Communications	110,500	110,500	87,580	22,920
Fire Prevention	4,000	4,000	3,882	118
Emergency Medical Services	18,000	18,000	7,059	10,941
Apparatus Maintenance	74,600	74,600	86,158	(11,558)
Uniforms	7,700	7,700	13,317	(5,617)
Capital Outlay	25,000	38,770	38,683	87
Other Expenses	10,000	10,000	-	10,000
	<u>1,310,605</u>	<u>1,324,375</u>	<u>1,267,052</u>	<u>57,323</u>
Excess of Revenues Over Expenditures	<u>\$ (21,005)</u>	<u>\$ (34,775)</u>	7,853	<u>\$ 42,628</u>
Fund Balance - Beginning			<u>1,281,961</u>	
Fund Balance - End			<u>\$ 1,289,814</u>	

Twentynine Palms Water District
Schedule of Funding Progress for TPRMBP
Year Ended June 30, 2010

Schedule of Funding Progress for TPRMBP

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Frozen Attained Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B - A)	(A/B)	(C)	[(B-A)/C]
06/30/09	\$ -	\$ 510,496	\$ 510,496	0%	\$1,395,966	36.570%

*GASB 45 was implemented prospectively in fiscal year 2010. There were no previous actuarial valuations.