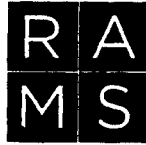


TWENTYNINE PALMS WATER DISTRICT
ANNUAL FINANCIAL REPORT
For the year ended June 30, 2012

**Twentynine Palms Water District
Annual Financial Report
For the year ended June 30, 2012**

TABLE OF CONTENTS

	Page
I. INDEPENDENT AUDITOR'S REPORT	1
II. MANAGEMENT DISCUSSION AND ANALYSIS	3
III. BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Fund	17
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	19
Statement of Net Assets - Proprietary Fund	20
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Fund	22
Statement of Cash Flows - Proprietary Fund	23
Notes to Financial Statements	25
IV. REQUIRED SUPPLEMENTARY INFORMATION	
Notes to Required Supplementary Information	44
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Governmental Fund Type - Fire Protection	45
Schedule of Funding Progress for Twentynine Palms Retiree Health Plan	46



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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 (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and the schedule of funding progress for the postemployment benefits, 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 the 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.

Rogers Anderson Malloy & Scott, LLP

January 25, 2013

Management's Discussion and Analysis

As management of the Twentynine Palms Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. 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, 2012 by \$32,814,592 (*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, \$6,429,563 (*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 decreased by \$21,373. This decrease was attributable to the excess of expenses over revenues for the year.
- As of June 30, 2012, the District's governmental fund (the Fire Department) reported unrestricted net assets of \$1,507,788, a decrease of \$95,559; while the business-type fund (the Water Department) unrestricted net assets increased by \$423,910.
- The District's total debt decreased by \$561,732 or 27 percent during the fiscal year. The decrease was due to the payment of regularly scheduled debt installments. Total debt outstanding as of June 30, 2012 was \$1,546,499. 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 \$204,076; or 5 percent, and total Fire fund expenses (excluding capital outlay) increased by \$63,386; or 4% compared to the prior year.

Overview of the Financial Statements

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

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

The Statement of Net 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 this report as listed in the table of contents.

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

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

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

The Twentynine Palms Water District maintains one individual governmental fund for fire protection and Emergency Medical Services.

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

The basic governmental fund financial statements can be found on this report as listed in the table of contents.

Proprietary funds. The District maintains one proprietary fund. This is an enterprise fund that is used to report the same functions presented as business-type activities in the district-wide financial statements.

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

The basic Proprietary Fund Financial Statements can be found on this report as listed in the table contents.

Notes to the financial statements. The notes provide additional information that is essential to fully understanding the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on this report as listed in the table contents.

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

District-wide Financial Analysis

As noted earlier, net 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 \$32,814,592 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets, \$26,024,243, 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 Activites - Fire		Business-type Activites - Water		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 1,618,319	\$ 1,727,681	\$ 6,103,628	\$ 5,462,728	\$ 7,721,947	\$ 7,190,409
Capital assets	961,381	1,106,690	26,623,972	27,378,518	27,585,353	28,485,208
Total assets	\$ 2,579,700	\$ 2,834,371	\$ 32,727,600	\$ 32,841,246	\$ 35,307,300	\$ 35,675,617
Long-term liabilities outstanding	\$ 25,366	\$ 49,320	\$ 1,392,670	\$ 1,726,503	\$ 1,418,036	\$ 1,775,823
Other liabilities	85,165	75,014	989,507	988,815	1,074,672	1,063,829
Total liabilities	\$ 110,531	\$ 124,334	\$ 2,382,177	\$ 2,715,318	\$ 2,492,708	\$ 2,839,652
Net assets:						
Invested in capital assets, net of related debt	\$ 961,381	\$ 1,106,690	\$ 25,062,862	\$ 25,270,287	\$ 26,024,243	\$ 26,376,977
Restricted for Debt	-	-	360,786	357,776	360,786	357,776
Unrestricted	1,507,788	1,603,347	4,921,775	4,497,865	6,429,563	6,101,212
Total net assets	\$ 2,469,169	\$ 2,710,037	\$ 30,345,423	\$ 30,125,928	\$ 32,814,592	\$ 32,835,965

The unrestricted net assets of \$6,429,563 may be used to meet the District's ongoing obligations to citizens and creditors. The District's restricted net assets were \$360,786 as of June 30, 2012.

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 decreased by \$21,373 during the current fiscal year. This change was the result of a decrease in net assets invested in capital assets of \$352,734; an increase in debt and construction restricted net assets of \$3,010; and an increase in unrestricted net assets of \$328,351.

Financial Analysis of Governmental and Business-type Activities.

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

	Governmental Activites - Fire		Business-type Activites - Water		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Charges for service	\$ 1,294,943	\$ 1,293,556	\$ 4,521,922	\$ 4,440,195	\$ 5,816,865	\$ 5,733,751
Operating Grants and Contributions	3,431	-	-	-	3,431	-
Capital Grants and Contributions	-	250,000	-	-	-	250,000
Property Leases	-	-	107,274	104,427	107,274	104,427
Investment Income	3,959	5,419	18,595	21,382	22,554	26,801
Other	-	-	46,116	78,121	46,116	78,121
Total revenues	\$ 1,302,333	\$ 1,548,975	\$ 4,693,907	\$ 4,644,125	\$ 5,996,240	\$ 6,193,100
Expenses:						
Fire Protection (Including Depreciation and excluding Capital Outlay)	\$ 1,543,201	\$ 1,479,815	\$ -	\$ -	\$ 1,543,201	\$ 1,479,815
Water	-	-	4,411,094	4,185,795	4,411,094	4,185,795
Interest on Long-term Debt	-	-	63,318	84,541	63,318	84,541
Total expenses	\$ 1,543,201	\$ 1,479,815	\$ 4,474,412	\$ 4,270,336	\$ 6,017,613	\$ 5,750,151
Increase (Decrease) in net assets	\$ (240,868)	\$ 69,160	\$ 219,495	\$ 373,789	\$ (21,373)	\$ 442,949
Beginning Net Assets	2,710,037	2,640,877	30,125,928	29,752,139	32,835,965	32,393,016
Ending Net Assets	\$ 2,469,169	\$ 2,710,037	\$ 30,345,423	\$ 30,125,928	\$ 32,814,592	\$ 32,835,965

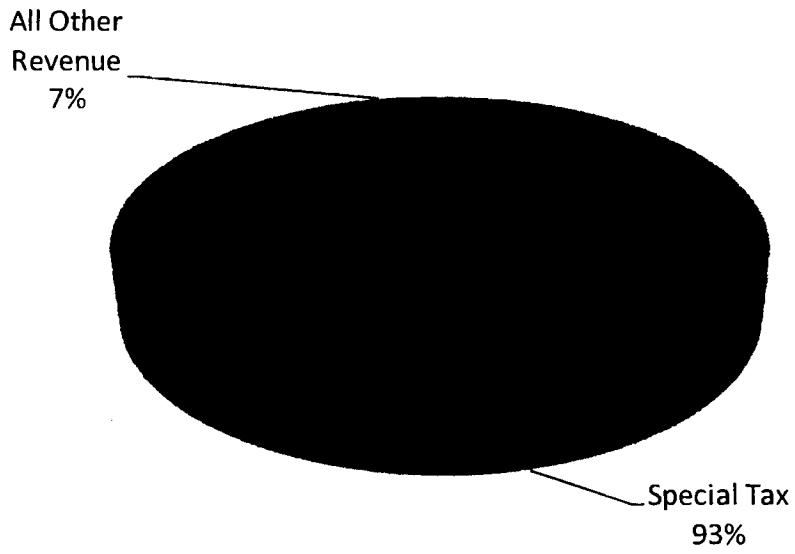
Governmental activities. Governmental activities include only the Fire Fund and the year's activity decreased the fund's net assets by \$240,868 or 18 percent of total revenue for the year. This decrease represents 9 percent of the beginning net assets of the fund.

Total revenue for the Fire Fund was \$1,302,333 for the year ended June 30, 2012 compared to \$1,548,975 in the prior year.

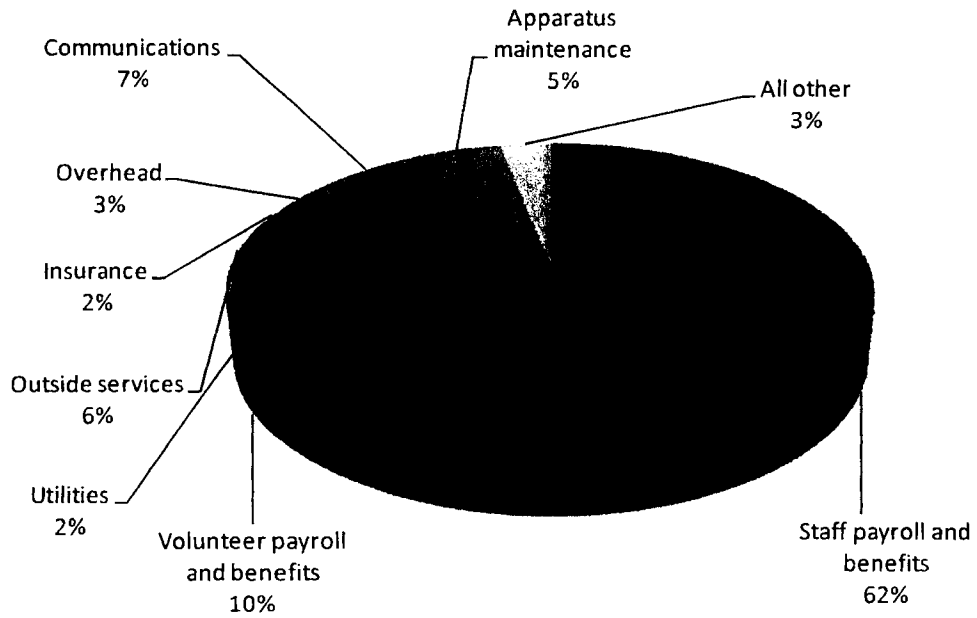
As indicated above, the vast majority of the governmental funds revenue comes from a Fire Protection Special Tax that was originally approved by the voters in 1997 and increased by the voters in 2004. This revenue source accounted for 93% of the fire departments total revenue for the year ended June 30, 2012.

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

Fire Department Revenue



Fire Department Expenses



Expenses (including capital outlay but excluding depreciation) increased by \$63,386 or 4 percent, compared to the prior year. The increase was primarily the result of higher payroll and benefit costs for the year.

Expenses (including capital outlay but excluding depreciation) totaled \$1,413,391 for the year, leaving a decrease to fund balance of \$151,858. The combined cost of Staff payroll and benefits, and Volunteer payroll and benefits was \$1,014,641. The next higher expense was Communications - \$100,626, followed by Outside services - \$94,768. The expenses listed above total \$1,210,035 or 86 percent of total expenses.

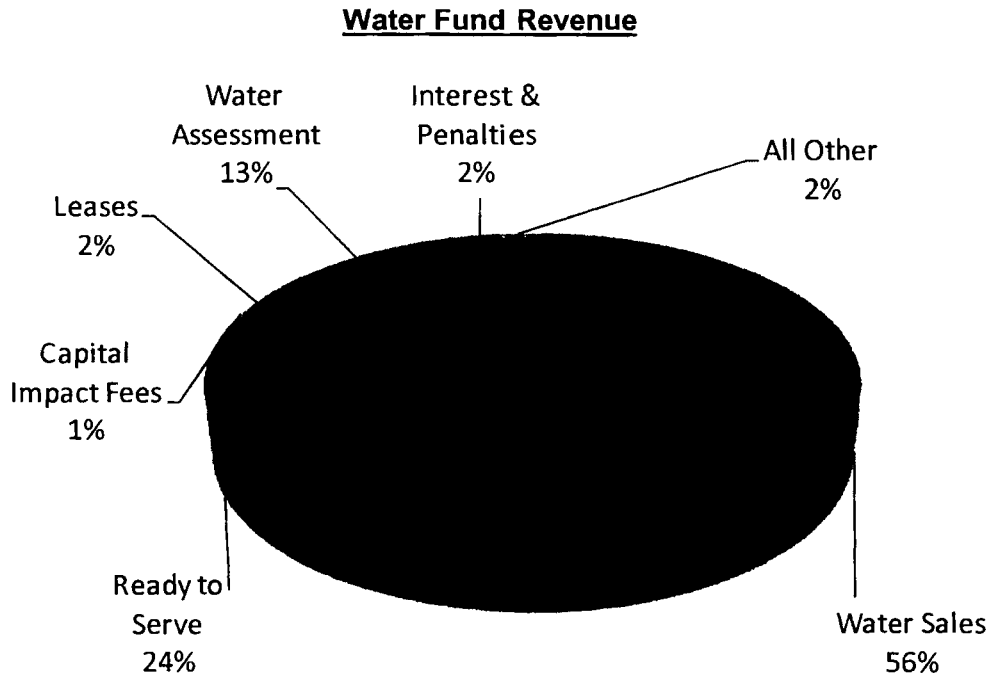
Business-type activities. These activities include only the District's proprietary fund (Water) and the financial statements provide the same type of information found in the district-wide financial statements, but in more detail.

Business-type activities increased the Water Fund's net assets by \$219,495 accounting for a 0.73 percent increase. The increase was comprised of an increase in unrestricted net assets of \$423,910; a decrease in net assets invested in capital assets of \$207,425; and an increase in restricted net assets of \$3,010.

Total revenues of business-type activities increased by \$49,782 compared to the prior year. The increase was primarily the product of higher water rates that were partially offset by no capital contributions and lower Interest Income for the year. Charges for Services increased by \$81,727 while Interest on Investments decreased by \$2,787. The District experienced a very modest level of new development during fiscal 2012 as evidenced by a 7 percent decrease in capital impact fees. Water sales and Ready-to-serve Charges had a combined increase of \$77,711 (2 percent) compared to the prior year.

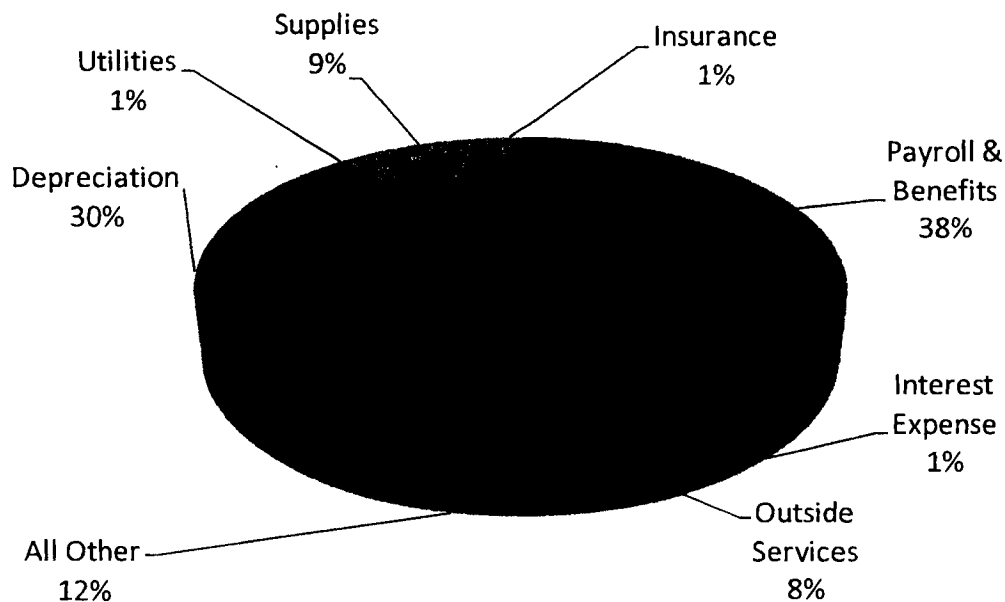
Water sales were \$2,622,521 for the year and represents 57 percent of total revenue. Other revenue sources included Ready-to-serve charges of \$1,113,065; Water availability assessments \$613,110; Investment Interest and Penalties \$108,162; Capital impact fees \$36,219; Property leases \$107,274 and all others \$93,556. During the year ended June 30, 2012, there were only minor changes in the District's sources of revenue. Water sales, Water availability assessments and Property leases increased as a percent of the total while all other categories of expenses remained constant or decreased modestly from the prior year.

The chart below displays the significant revenue sources for the year ended June 30, 2012. The District's largest revenue types are typically Water sales and Ready-to-serve charges, which together represent 80 percent of the Water Fund's total revenue for the year. Water sales are based on the amount of water delivered to the customer while the Ready-to-serve rates are based on the capacity of the service. Water rates increased in July 2010 and again in July 2011.



Total Business-type expenses increased \$204,076 or 4.78 percent from the prior year. The increase in expenses was primarily from higher employee costs that increased \$139,037 in fiscal 2012. Outside services, utilities and telephone expenses also contributed to the increase but were partially offset by lower costs for materials, supplies and interest expense. The increases experienced in employee benefits were primarily due to higher retirement and employee medical expenses, while the increase in outside services was from additional utilization of outside professional services. The increase in utility expense was the result of increased electric usage at the fluoride removal plant due to an increase in the volume of water treated. Decreased expenses in supplies primarily came from lower costs for bulk chemicals used to treat water at the District's fluoride removal plant. Those decreases were from reductions in unit pricing for bulk chemicals in addition to efficiencies realized in the treatment process. As shown in the chart below, payroll and benefits represent 38 percent of total expenses while depreciation accounts for 30 percent of expenses. The magnitude of these two expense categories demonstrates that the delivery of water to customers is a labor and capital intensive enterprise. Interest expense was only one percent of total expenses and has continued to have a lower impact on costs over time. Subsequent to June 30, 2012, the District paid off all of its outstanding debt, without any penalties for early payoff. In the mid-term, the District will probably be required to acquire new debt to finance future significant capital projects.

Water Fund Expenses



Government Fund (Fire Department) Budgetary Highlights

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

Actual total revenues were \$131,265 under estimate for the year. \$115,867 of that amount was from capital grant revenues from intergovernmental agencies. The shortfall was more than offset by a related reduction in capital outlay expenditures of \$124,080 shown below. Special tax revenue was \$16,119 under estimate as the property owners who are subject to this tax are continuing to be delinquent in the payment of their property and related taxes.

The only unfavorable variance in the budget for fiscal year 2011-12 was from outside service costs. This was directly attributable to election and the related legal costs associated with a ballot measure that was presented to the voters to authorize an increase in the District's Special Tax. The voters rejected that ballot proposal. Those over-budget expenses were absorbed by budget savings in other categories of the budget and accordingly did not require any budget amendment. The most significant favorable variance was recognized in capital outlay expenditures that were \$124,080 favorable for the year.

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets for its combined governmental and business type activities totals \$27,585,353 (net of accumulated depreciation) as of June 30, 2012. This investment in capital assets includes land, buildings, vehicles, wells, reservoirs, transmission mains, machinery, vehicles, fire-fighting equipment and other equipment. The decrease in the District's combined investment in capital assets for the current fiscal year was the result of depreciation for the year being more than the cost of new capital assets acquired or placed in service during the year.

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

	Governmental Activites - Fire		Business-type Activites - Water		Total	
	2012	2011	2012	2011	2012	2011
Land, and improvements	\$ 57,519	\$ 57,519	\$ 632,996	\$ 632,996	\$ 690,515	\$ 690,515
Buildings and structures	811,954	811,954	903,075	755,421	1,715,029	1,567,375
Vehicles and heavy mobile equipment	1,509,718	1,509,718	1,155,289	1,100,299	2,665,007	2,610,017
Machinery and equipment	557,789	557,789	1,051,229	1,051,229	1,609,018	1,609,018
Infrastructure	-	-	42,014,217	41,712,938	42,014,217	41,712,938
Construction in progress	-	-	124,670	48,103	124,670	48,103
Accumulated depreciation	(1,975,599)	(1,830,290)	(19,257,504)	(17,922,468)	(21,233,103)	(19,752,758)
Total	\$ 961,381	\$ 1,106,690	\$ 26,623,972	\$ 27,378,518	\$ 27,585,353	\$ 28,485,208

Additional information on the District's capital assets can be found in note 5 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 \$1,546,499, including the portion that is due within one year. 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 Activites - Fire		Business-type Activites - Water		Total	
	2012	2011	2012	2011	2012	2011
Revenue bonds - Total	\$ -	\$ -	\$ 1,546,499	\$ 2,108,231	\$ 1,546,499	\$ 2,108,231

The District's total debt decreased by \$561,732 or 27 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 of this report.

Requests for Information

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

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Twentynine Palms Water District
Statement of Net Assets
June 30, 2012

	Governmental activities	Business-type activities	Total
ASSETS			
Cash	\$ 16,804	\$ 117,047	\$ 133,851
Temporary investments	1,091,640	3,888,381	4,980,021
Accounts receivable, net:			
Water	-	707,162	707,162
Assessments	550,778	140,513	691,291
Other	-	11,328	11,328
Accrued interest receivable	1,046	3,871	4,917
Internal balances	(41,949)	41,949	-
Material inventory	-	177,355	177,355
Prepaid expenses and other	-	86,411	86,411
Deferred charges	-	18,825	18,825
Restricted assets:			
Cash	-	360,786	360,786
Temporary investments	-	550,000	550,000
Capital assets, not being depreciated:			
Land	57,519	632,996	690,515
Construction in progress	-	124,670	124,670
Capital assets, being depreciated, net	903,862	25,866,306	26,770,168
Total assets	2,579,700	32,727,600	35,307,300
LIABILITIES			
Accounts payable	24,077	131,297	155,374
Accrued payroll	11,375	18,035	29,410
Other current liabilities	41,258	53,606	94,864
Customer deposits	-	324,452	324,452
Accrued interest payable	-	14,611	14,611
Current installment of long-term debt	8,455	447,506	455,961
Noncurrent liabilities:			
Compensated absences payable	25,366	31,191	56,557
Net OPEB obligation	-	252,089	252,089
Long-term debt	-	1,109,390	1,109,390
Total liabilities	110,531	2,382,177	2,492,708
NET ASSETS			
Invested in capital assets, net of related debt	961,381	25,062,862	26,024,243
Restricted for:			
Debt service	-	360,786	360,786
Unrestricted	1,507,788	4,921,775	6,429,563
Total net assets	\$ 2,469,169	\$ 30,345,423	\$ 32,814,592

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

Twentynine Palms Water District
Statement of Activities
For the year ended June 30, 2012

<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	\$ 1,543,201	\$ 1,294,943	\$ 3,431	\$ -
Business-type activities:				
Water	4,411,094	4,521,922	-	-
Interest on long-term debt	63,318	-	-	-
Total business-type activities	<u>4,474,412</u>	<u>4,521,922</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 6,017,613</u>	<u>\$ 5,816,865</u>	<u>\$ 3,431</u>	<u>\$ -</u>

General revenues:

Property leases
Investment income
Other

Total general revenues

Change in net assets

Net assets, beginning of year

Net assets, end of year

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

Net (expense) revenue and change in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
<u>\$ (244,827)</u>	<u>\$ -</u>	<u>\$ (244,827)</u>
-	110,828	110,828
-	(63,318)	(63,318)
-	47,510	47,510
<u>(244,827)</u>	<u>47,510</u>	<u>(197,317)</u>
-	107,274	107,274
3,959	18,595	22,554
-	46,116	46,116
<u>3,959</u>	<u>171,985</u>	<u>175,944</u>
<u>(240,868)</u>	<u>219,495</u>	<u>(21,373)</u>
<u>2,710,037</u>	<u>30,125,928</u>	<u>32,835,965</u>
<u>\$ 2,469,169</u>	<u>\$ 30,345,423</u>	<u>\$ 32,814,592</u>

Twentynine Palms Water District
Balance Sheet
Governmental Fund
June 30, 2012

	Fire Protection
ASSETS	
Cash	\$ 16,804
Temporary investments	1,091,640
Accounts receivable:	
Assessments, net of allowance for doubtful accounts of \$400	550,778
Accrued interest receivable	1,046
Total assets	\$ 1,660,268
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 24,077
Accrued payroll	11,375
Other current liabilities	41,258
Due to Water District	41,949
Deferred revenues	518,432
Total liabilities	637,091
Fund balance:	
Assigned to :	
Apparatus reserve	245,000
Unassigned	778,177
Total fund balance	1,023,177
Total liabilities and fund balance	\$ 1,660,268
Fund balance of governmental fund	\$ 1,023,177
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.	961,381
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Compensated absences payable	(33,821)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	518,432
Net assets of governmental activities	\$ 2,469,169

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

Twentynine Palms Water District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the year ended June 30, 2012

	Fire Protection
REVENUES	
Fire protection special tax	\$ 1,208,881
Investment earnings	3,959
Intergovernmental	3,431
Fines, penalties and other	45,262
Total revenues	1,261,533
EXPENDITURES	
Staff payroll and benefits	872,707
Volunteer payroll and benefits	141,934
Facilities maintenance and supplies	11,697
Utilities	25,673
Outside services	94,768
Miscellaneous	9,764
Insurance	26,998
Overhead	40,660
Safety	1,876
Training	2,368
Communications	100,626
Fire prevention	3,154
Emergency medical services	4,528
Apparatus maintenance	67,040
Uniforms	5,678
Capital outlay	3,920
Total expenditures	1,413,391
Net change in fund balance	(151,858)
Fund balance, beginning of year	1,175,035
Fund balance, end of year	\$ 1,023,177

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, 2012

Net change in fund balances-total governmental funds	\$	(151,858)
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Amounts reported for governmental activities in the statement of activities are different because:

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

Depreciation		(145,309)
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Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental fund.

Net change in compensated absences		15,499
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the net change in deferred revenue for the current period.

		<u>40,800</u>
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Change in net assets of governmental activities	\$	<u><u>(240,868)</u></u>
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The accompanying notes are an integral part of these financial statements.

Twentynine Palms Water District
Statement of Net Assets
Proprietary Fund
June 30, 2012

ASSETS	<u>Water</u>
Current assets:	
Cash	\$ 117,047
Temporary investments	3,888,381
Accounts receivable, net:	
Water	707,162
Assessments	140,513
Other	11,328
Accrued interest receivable	3,871
Due from Fire Fund	41,949
Material inventory	177,355
Prepaid expenses and other	<u>86,411</u>
Total current assets	<u>5,174,017</u>
Noncurrent assets:	
Restricted cash	360,786
Restricted temporary investments	550,000
Capital assets:	
Land	632,996
Construction in progress	124,670
Other capital assets, net	25,866,306
Deferred charges	<u>18,825</u>
Total noncurrent assets	<u>27,553,583</u>
Total assets	<u>32,727,600</u>

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

Twentynine Palms Water District
Statement of Net Assets - continued
Proprietary Fund
June 30, 2012

LIABILITIES

Current liabilities:

Accounts payable	\$	131,297
Accrued payroll		18,035
Other current liabilities		53,606
Customer deposits		324,452
Accrued interest payable		14,611
Current portion of long-term debt		447,506

Total current liabilities		989,507
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Noncurrent liabilities:

Compensated absences		31,191
Net OPEB obligation		252,089
Long-term debt		1,109,390

Total current long-term liabilities		1,392,670
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Total liabilities		2,382,177
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NET ASSETS

Invested in capital assets, net of related debt		25,062,862
Restricted for:		
Debt service		360,786
Unrestricted		4,921,775

Total net assets	\$	30,345,423
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The accompanying notes are an integral part of these financial statements.

Twentynine Palms Water District
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the year ended June 30, 2012

	Water
OPERATING REVENUES	
Water sales	\$ 2,622,521
Ready to serve charges	1,149,284
Other charges	137,007
Total operating revenues	3,908,812
OPERATING EXPENSES	
Source of supply	251,541
Pumping	143,076
Transmission and distribution	271,747
Customer accounts	129,522
General plant	978,193
Engineering	64,053
General and administrative	1,237,926
Depreciation and amortization	1,335,036
Total operating expenses	4,411,094
Operating income (loss)	(502,282)
NON-OPERATING REVENUES (EXPENSES)	
Water availability charges	613,110
Investment income	18,595
Property leases	107,274
Other	46,116
Interest on long-term debt	(63,318)
Total non-operating revenues (expenses)	721,777
Change in net assets	219,495
Net assets, beginning of year	30,125,928
Net assets, end of year	\$ 30,345,423

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, 2012

	Water
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,892,694
Cash payments for services and supplies	(1,319,701)
Cash payments to employees for services	(1,563,227)
	1,009,766
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Water availability assessments	623,113
Property leases	107,274
Other	55,029
	785,416
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(580,490)
Loan payments	(283,474)
Principal payments - Certificates of Participation	(278,258)
Interest paid	(70,745)
	(1,212,967)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	19,388
	19,388
Net increase in cash and investments	601,603
Cash and cash equivalents, beginning of year	4,314,611
Cash and cash equivalents, end of year	\$ 4,916,214
Cash and cash equivalents, end of year:	
Current assets:	
Cash	\$ 117,047
Temporary investments	3,888,381
Restricted assets:	
Cash	360,786
Temporary investments	550,000
	\$ 4,916,214
Totals	\$ 4,916,214

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, 2012

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

Operating loss	\$ (502,282)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	1,335,036
(Increase) decrease in assets:	
Accounts receivable	(36,240)
Prepaid expenses	(3,791)
Material inventory	(11,852)
Increase (decrease) in liabilities:	
Accounts payable	92,646
Accrued payroll	2,453
Customer deposits	20,123
Compensated absences	(605)
OPEB liability	114,278
	<hr/>
Net cash provided by operating activities	<u>\$ 1,009,766</u>

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, 2012

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, 2012 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	12/02/15
Chancey Chambers	Member	Director	12/06/13
Nicholas Bourikas	Member	Director	12/02/15
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*, 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, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (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 non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

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

The government reports the following major governmental fund:

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

The government reports the following major proprietary fund:

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

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* established accounting and financial reporting standards for the financial statements of state and local governments. The standard incorporates into the GASB's authoritative literature the applicable guidance previously only found in certain FASB and AICPA pronouncements issued before November 30, 1989. The District has elected not to follow subsequent private-sector guidance.

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, 2012

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, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Inventories

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

Use of Estimates

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

Property Tax

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

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

Under California law, property taxes and other charges (such as assessments) are assessed and collected by counties up to 1% 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
For the year ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Capital Assets

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

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

Allowance for Uncollectible Accounts

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

Unbilled Services

Unbilled water services are accrued at year-end.

Compensated Absences Liability

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

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2012

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	\$ 133,851
Temporary investments	4,980,021
Restricted:	
Cash	360,786
Temporary investments	<u>550,000</u>
Total cash and temporary investments	<u><u>\$ 6,024,658</u></u>

Cash and investments consist of the following:

Cash on hand	\$ 1,550
Deposits with financial institutions	493,087
Investments	<u>5,530,021</u>
Total cash and temporary investments	<u><u>\$ 6,024,658</u></u>

Restricted Cash and Temporary Investments

Restricted cash and temporary investments of \$360,786 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
For the year ended June 30, 2012

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, 2012, the District had the following investments.

		<u>Maturity date</u>
LAIF	\$5,530,021	N/A

Disclosures Relating to Credit Risk

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

Investment type	Amount	Minimum legal rating	Exempt from disclosure	Rating as of year-end		
				AAA	Aa	Not rated
LAIF	\$ 5,530,021	N/A	\$ -	\$ -	\$ -	\$ 5,530,021

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
For the year ended June 30, 2012

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, 2012, \$110,786 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. 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, 2012 was 0.36%. The estimated amortized cost and fair value of the LAIF Pool at June 30, 2012 was \$60,514,457,550 and \$60,588,263,603, respectively. The District's share of the Pool at June 30, 2012 was approximately .0091272 percent.

3) ASSESSMENTS

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

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2012

3) ASSESSMENTS, (continued)

The governmental fund receives a fire suppression special tax of \$80 for each unit. The units range in size from .25 to 1.0 for residential and from 1.0 to 4.0 for commercial, industrial and institutional units. The nonresidential units are based on the formula of one unit per each 3,000 square foot or portion thereof, or one unit per business/occupancy, whichever is greater. All parcels (improved or unimproved) greater than 5.0 acres shall be taxed an additional amount of \$2.00 per acre for each acre, or portion thereof, in excess of 5.0 acres.

The large parcel amount shall not exceed the amount of \$150.00 per parcel per fiscal year and shall be in addition to the basic tax amount imposed upon any parcel greater than 5.0 acres.

4) INTERFUND BALANCES

The water fund has advanced the fire fund \$41,949 to cover current year expenditures. Repayment is expected in the 2012-13 fiscal year.

5) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning balance	Additions	Deletions	Ending balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 57,519	\$ -	\$ -	\$ 57,519
Total capital assets not being depreciated	57,519	-	-	57,519
Capital assets being depreciated:				
Structures	811,954	-	-	811,954
Fire trucks	1,509,718	-	-	1,509,718
Fire equipment	435,426	-	-	435,426
Communication equipment	75,221	-	-	75,221
Office equipment	47,142	-	-	47,142
Total capital assets being depreciated	2,879,461	-	-	2,879,461
Less accumulated depreciation	(1,830,290)	(145,309)	-	(1,975,599)
Net capital assets being depreciated	1,049,171	(145,309)	-	903,862
Net capital assets	<u>\$ 1,106,690</u>	<u>\$ (145,309)</u>	<u>\$ -</u>	<u>\$ 961,381</u>

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2012

5) CAPITAL ASSETS, (continued)

	Beginning balance	Additions	Deletions	Ending balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 632,996	\$ -	\$ -	\$ 632,996
Construction in progress	48,103	499,506	(422,939)	124,670
Total capital assets not being depreciated	<u>681,099</u>	<u>499,506</u>	<u>(422,939)</u>	<u>757,666</u>
Capital assets being depreciated:				
Source of supply plant	12,096,611	254,095	-	12,350,706
Pumping plant	505,734	-	-	505,734
Transmission and distribution plant	29,110,593	47,184	-	29,157,777
Buildings	755,421	147,654	-	903,075
Office equipment	528,452	-	-	528,452
Transportation/heavy equipment	1,100,299	54,990	-	1,155,289
Radio and communication equipment	160,762	-	-	160,762
Field equipment and tools	362,015	-	-	362,015
Total capital assets being depreciated	<u>44,619,887</u>	<u>503,923</u>	<u>-</u>	<u>45,123,810</u>
Less accumulated depreciation	<u>(17,922,468)</u>	<u>(1,335,036)</u>	<u>-</u>	<u>(19,257,504)</u>
Net capital assets being depreciated	<u>26,697,419</u>	<u>(831,113)</u>	<u>-</u>	<u>25,866,306</u>
Net capital assets	<u>\$ 27,378,518</u>	<u>\$ (331,607)</u>	<u>\$ (422,939)</u>	<u>\$ 26,623,972</u>

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

Governmental activities:	
Fire Protection	<u>\$ 145,309</u>
Business-type activities:	
Water	<u>\$ 1,335,036</u>

6) DEFERRED CHARGES

As of June 30, 2012, 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, 2012 totaled \$18,825. Interest of \$35,506 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, 2012

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>	Beginning balance	Additions	Deletions	Ending balance	Due within one year
Compensated absences	\$ 49,320	\$ 52,649	\$ 68,148	\$ 33,821	\$ 8,455
Total long-term debt - governmental activities	<u>\$ 49,320</u>	<u>\$ 52,649</u>	<u>\$ 68,148</u>	<u>\$ 33,821</u>	<u>\$ 8,455</u>
<u>Business-type activities:</u>					
Certificates of Participation - 2002 Issue	\$ 421,858	\$ -	\$ 278,258	\$ 143,600	\$ 143,600
State Department of Water Resources Loan	<u>1,686,373</u>	<u>-</u>	<u>283,474</u>	<u>1,402,899</u>	<u>293,509</u>
Total bonds and loans	2,108,231	-	561,732	1,546,499	437,109
Compensated absences	<u>42,193</u>	<u>122,215</u>	<u>122,820</u>	<u>41,588</u>	<u>10,397</u>
Total long-term debt - business-type activities	<u>\$ 2,150,424</u>	<u>\$ 122,215</u>	<u>\$ 684,552</u>	<u>\$ 1,588,087</u>	<u>\$ 447,506</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, 2011, 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 drawdown's are received from the State. Semiannual principal payments are due on April 1 and October 1, commencing April, 1997, over a loan amortization period of 20 years.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2012

7) LONG-TERM DEBT, (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:

Fiscal year ending June 30,	2002 COPS		DWR Loan	
	Principal	Interest	Principal	Interest
2013	\$ 143,600	\$ 3,066	\$ 293,509	\$ 45,636
2014	-	-	303,588	35,556
2015	-	-	314,114	25,031
2016	-	-	324,981	14,164
2017	-	-	166,707	2,865
Totals	<u>\$ 143,600</u>	<u>\$ 3,066</u>	<u>\$ 1,402,899</u>	<u>\$ 123,252</u>

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

Plan Description

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

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2012

**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 2011-12 were 16.062% for miscellaneous employees, and 19.824% for Safety employees. The contribution requirements for plan members are established by State statute and the employer contribution rates are established and may be amended by CalPERS.

THREE YEAR TREND INFORMATION FOR MISCELLANEOUS PLAN

Fiscal year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2010	\$ 178,497	100%	\$ -
June 30, 2011	196,366	100%	-
June 30, 2012	224,527	100%	-

THREE YEAR TREND INFORMATION FOR SAFETY PLAN

Fiscal year ended	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2010	\$ 97,759	100%	\$ -
June 30, 2011	105,384	100%	-
June 30, 2012	139,885	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, 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.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2012

9) OTHER POST EMPLOYMENT BENEFITS, (continued)

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.

Annual OPEB Cost

The District is required to contribute the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 9.66% of the current annual covered payroll. The plan is financed on a pay-as-you-go basis.

Annual required contribution	\$ 144,532
Interest on net OPEB obligation	7,607
Adjustment to annual required contribution	<u>(24,775)</u>
Annual OPEB cost (expense)	127,364
Contributions made	<u>(13,086)</u>
Increase in net OPEB obligation	114,278
Net OPEB obligation – beginning of year	<u>137,811</u>
 Net OPEB obligation – end of year	 <u><u>\$ 252,089</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 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, 2012	\$ 127,364	10%	\$ 252,089
June 30, 2011	81,187	15%	137,811
June 30, 2010	79,469	13%	68,818

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2012

9) OTHER POST EMPLOYMENT BENEFITS, (continued)

Funded Status and Funding Progress

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

Actuarial accrued liability (AAL)	\$	697,138
Actuarial value of plan assets	\$	-
Unfunded actuarial accrued liability (UAAL)	\$	697,138
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	1,496,211
UAAL as a percentage of covered payroll		46.59%

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

Actuarial Methods and Assumptions

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

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2012

9) OTHER POST EMPLOYMENT BENEFITS, (continued)

Actuarial Methods and Assumptions - continued

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

Assumptions

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

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, 2012 and 2011, there were no claims liabilities to be reported. During the year ended June 30, 2012, 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, 2012, 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 \$50,000 and has purchased excess insurance coverage.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2012

10) RISK MANAGEMENT, (continued)

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 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 liability coverage is \$5,000,000.

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.

During the current fiscal year, the District entered into discussions with the City of Twentynine Palms and the County of San Bernardino about the possible divestiture of the District's Fire Department. As of June 30, 2012 (and subsequently to the date of the audit report), no decision had been made about the future of the Fire Department. If the District elects to divest itself from the Fire Department, the effects of the divestiture on future District financial statements are not determinable at this time.

Twentynine Palms Water District
Notes to Financial Statements
For the year ended June 30, 2012

12) SUBSEQUENT EVENT

Divestiture of authority to provide fire protection services

On June 27, 2012, the Board of Directors of the District declared by unanimous action, a non-binding intent of the District to divest itself of all fire protection authority. Any divestiture would be subject to approval and mutually agreeable conditions set forth by the District and the Local Agency Formation Commission for San Bernardino County. Based on preliminary actuarial valuations provided by the California Public Employees Retirement System for all safety (fire department) employees of the District, the District could have an additional unfunded retirement expense liability of between \$2,575,000 and \$4,247,000. Based on the materiality of that potential liability, the Board of Directors has directed that the application process for divesting the District of its fire protection authority be delayed while other alternatives of providing fire protection services to the community are being evaluated.

Certificates of participation pay off

In July 2012, the District paid off the outstanding Certificates of Participation – Issue 2002 and the State Department of Water Resources loan in the amounts of \$143,600 and \$1,402,899, respectively, with no prepayment penalties applied.

Twentynine Palms Water District
Notes to Required Supplementary Information
For the year ended June 30, 2012

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
For the year ended June 30, 2012

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
REVENUES				
Fire protection special tax	\$ 1,225,000	\$ 1,225,000	\$ 1,208,881	\$ (16,119)
Investment earnings	5,000	5,000	3,959	(1,041)
Intergovernmental	119,298	119,298	3,431	(115,867)
Fines, penalties and other	43,500	43,500	45,262	1,762
Total revenues	1,392,798	1,392,798	1,261,533	(131,265)
EXPENDITURES				
Staff payroll and benefits	885,323	885,323	872,707	12,616
Volunteer payroll and benefits	142,498	142,498	141,934	564
Facilities maintenance and supplies	12,000	12,000	11,697	303
Utilities	29,700	29,700	25,673	4,027
Outside services	29,800	29,800	94,768	(64,968)
Miscellaneous	17,700	17,700	9,764	7,936
Insurance	26,265	26,265	26,998	(733)
Overhead	41,708	41,708	40,660	1,048
Safety	2,500	2,500	1,876	624
Training	15,600	15,600	2,368	13,232
Communications	105,000	105,000	100,626	4,374
Fire prevention	4,000	4,000	3,154	846
Emergency medical services	7,000	7,000	4,528	2,472
Apparatus maintenance	80,000	80,000	67,040	12,960
Uniforms	16,500	16,500	5,678	10,822
Capital outlay	128,000	128,000	3,920	124,080
Other	19,000	19,000	-	19,000
Total expenditures	1,562,594	1,562,594	1,413,391	149,203
Net change in fund balance	\$ (169,796)	\$ (169,796)	(151,858)	\$ 17,938
Fund balance, beginning of year			1,175,035	
Fund balance, end of year			<u>\$ 1,023,177</u>	

Twentynine Palms Water District
Schedule of Funding Progress for TPWDPRMBP
For the year ended June 30, 2012

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%	\$ 1,496,211	46.59%

