Twentynine Palms Water District

Twentynine Palms, California

Annual Financial Report

For the Fiscal Year Ended June 30, 2018

TWENTYNINE PALMS WATER DISTRICT

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June 30, 2018

FINANCIAL SECTION

EADIE + PAYNE
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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Twentynine Palms Water District (District) as of and for the year ended June 30, 2018, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the District, as of June 30, 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As described in Note 1 to the financial statements, during fiscal year ending June 30, 2018, the District adopted new accounting guidance, GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 and the schedules related to the District's pension and other post-employment benefit plans on pages 51 through 53, respectively, are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated November 2, 2018, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Eadie and Payne LLP

November 2, 2018
Riverside, California

TWENTYNINE PALMS WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED June 30, 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Twentynine Palms Water District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position decreased 1.41%, or $409,150 from $29,096,422 to $28,687,272, as a result of a decrease in net position of $155,853 from this year’s operations and the implementation for GASB 75 of $253,297.
- Total revenues from all sources increased by 4.59%, or $231,756 from $5,048,323 to $5,280,079, from the prior year, primarily due to a decrease in total governmental-type revenues of $160,396 and an increase in business-type revenues of $392,152. Also, noted is that the District's governmental activities (fire protection funds) were reorganized to the San Bernardino County Fire Protection District on July 1 2017; therefore, those operations have been discontinued.
- Total expenses for the District's operations decreased by 5.99% or $346,543 from $5,782,475 to $5,435,932, from the prior year, primarily due to a decrease in total governmental-type expenses of $460,929 and an increase in business-type expenses of $114,386.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements
Statement of Net Position and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting,* which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. These two statements report the District's *net position* and changes in them. Think of the District's net position- the difference between assets and liabilities- as one way to measure the District's financial health, or *financial position.* Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the District's property tax base to assess the *overall health* of the District.

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-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 government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's pension and OPEB activities.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by $28,687,272 as of June 30, 2018.

Statements of Net Position

Condensed Statements of Net Position

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Assets:						
Current assets	$ 39,965	$ 160,346	$ 8,023,965	$ 7,559,690	$ 8,063,930	$ 7,720,036
Restricted assets	1,331,803	1,098,489	-	-	1,331,803	1,098,489
Capital assets, net	-	-	22,671,036	23,105,770	22,671,036	23,105,770
Total assets	1,371,768	1,258,835	30,695,001	30,665,460	32,066,769	31,924,295
DEFERRED OUFLOWS OF RESOUCES	402,869	456,807	954,678	535,879	1,357,547	992,686
LIABILITIES						
Current liabilities	20,683	72,000	728,939	533,519	749,622	605,519
Long-term obligations	320,883	240,014	2,931,363	2,435,955	3,252,246	2,675,969
Total liabilities	341,566	312,014	3,660,302	2,969,474	4,001,868	3,281,488
DEFERRED INFLOWS OF RESOURCES	293,402	359,234	441,774	179,837	735,176	539,071
NET POSITION						
Investment in capital assets	-	-	22,671,036	23,105,770	22,671,036	23,105,770
Restricted	1,351,085	1,186,835	-	-	1,351,085	1,186,835
Unrestricted (Deficit)	(211,416)	(142,441)	4,876,567	4,946,258	4,665,151	4,803,817
Total net position	$ 1,139,669	$ 1,044,394	$ 27,547,603	$ 28,052,028	$ 28,687,272	$ 29,096,422

At June 30, 2018, the District shows a positive balance in its unrestricted net position of $4,665,151 that may be utilized in future years.

TWENTYNINE PALMS WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED June 30, 2018

Statements of Activities

Condensed Statements of Activities

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
REVENUES						
Program revenues	$ -	$ -	$ 4,762,405	$ 4,382,826	$ 4,762,405	$ 4,382,826
General revenues	258,999	419,395	258,675	246,102	517,674	665,497
Total revenues	258,999	419,395	5,021,080	4,628,928	5,280,079	5,048,323
Expenses						
Fire protection	71,039	64,660	-	-	71,039	64,660
Water operations	-	-	5,272,208	5,157,822	5,272,208	5,157,822
Total expenses	71,039	64,660	5,272,208	5,157,822	5,343,247	5,222,482
SPECIAL ITEMS:						
Transfers of Fire Operation to San Bernardino County Fire District	(92,685)	(559,993)	-	-	(92,685)	(559,993)
Change in net position	95,275	(205,258)	(251,128)	(528,894)	(155,853)	(734,152)
NET POSITION:						
Beginning of year, as previously reported	1,044,394	1,249,652	28,052,028	28,580,922	29,096,422	29,830,574
Less: Prior-period adjustment	-	-	(253,297)	-	(253,297)	-
End of year	$ 1,139,669	$ 1,044,394	$ 27,547,603	$ 28,052,028	$ 28,687,272	$ 29,096,422

The statement of activities shows how the government's net position changed during the fiscal year. In the case of the District, net position decreased by $155,853 during the fiscal year ended June 30, 2018. Additionally, the net position was decreased by a prior-period adjustment related to the OPEB liability in the amount of $253,297.

TWENTYNINE PALMS WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED June 30, 2018

Governmental Revenues

	Balance June 30, 2018	Balance June 30, 2017	Change
Governmental revenues:			
Penalties on delinquent payments	$ 56,218	$ -	$ 56,218
Other revenues	111,771	99,525	12,246
Intergovernmental	31,000	-	31,000
Investment earnings	20,010	29,870	(9,860)
Gain on sale of assets	-	250,000	(250,000)
Transfers in	40,000	40,000	-
Total governmental revenues	$ 258,999	$ 419,395	$ (160,396)

Governmental revenues decreased by $160,396 for the fiscal year ended June 30, 2018. The District's governmental activities (fire protection funds) were reorganized to the San Bernardino County Fire Protection District on July 1, 2017; therefore, those operations have been discontinued and the ongoing revenues associated with this activity have been transferred to the San Bernardino County Fire District.

Business-Type Revenues

	Balance June 30, 2018	Balance June 30, 2017	Change
Business-type revenues:			
Water consumption sales	$ 2,813,193	$ 2,622,789	$ 190,404
Water service charges	1,194,615	1,030,621	163,994
Water availability charge	620,558	606,779	13,779
Other service charges	134,039	122,637	11,402
Rental revenue	121,055	123,332	(2,277)
Investment earnings	72,263	31,676	40,587
Gain on sale of assets	10,401	52,875	(42,474)
Other non-operating revenue	94,956	78,219	16,737
Transfer out	(40,000)	(40,000)	-
Total business-type revenues	$ 5,021,080	$ 4,628,928	$ 392,152

Business-type revenues increased $392,152 for the fiscal year ended June 30, 2018. Therefore an increase in water consumption revenue of $190,404 was noted for the year ended June 30, 2018.

Expenses

Governmental Expenses

	Balance June 30, 2018	Balance June 30, 2017	Change
Governmental expenses:			
Salaries and benefits	$ 71,039	$ 64,660	$ 6,379
Materials and services	-	615	(615)
Transfer to San Bernardino	92,685	70,499	22,186
Loss on disposal of assets	-	488,879	(488,879)
Total expenses	$ 163,724	$ 624,653	$ (460,929)

Governmental expenses decreased $460,929 for the fiscal year ended June 30, 2018. The District's governmental activities (fire protection funds) were reorganized to the San Bernardino County Fire Protection District on July 1, 2017; therefore, those operations have been discontinued.

Business-Type Expenses

	Balance June 30, 2018	Balance June 30, 2017	Change
Business-type expenses:			
Source of supply	$ 305,440	$ 353,306	$ (47,866)
Pumping	210,914	263,913	(52,999)
Transmission and distribution	1,065,225	869,682	195,543
Customer accounts	257,463	214,751	42,712
General plant	682,359	559,518	122,841
General and administrative	1,363,875	1,507,277	(143,402)
Depreciation expense	1,386,932	1,389,378	(2,446)
Total expenses	$ 5,272,208	$ 5,157,825	$ 114,383

Business-type expenses increased $114,383 for the fiscal year ended June 30, 2018.

Governmental Funds Financial Analysis

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, the *unreserved fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

Governmental Funds:

As of June 30, 2018, the District reported a total fund balance of $1,351,085. This fund balance is restricted for future payments towards the District exiting its CalPERS Safety Pension Plan program.

Proprietary Funds:

As of June 30, 2018, the District reported a net position of $27,547,603. An amount of $4,876,567 constitutes the District's *unrestricted net position* balance which is available for future operations.

Capital Asset Administration

Changes in capital assets for the year were as follows:

	Balance June 30, 2018	Balance June 30, 2017
Non-depreciable capital assets	$ 950,036	$ 223,431
Depreciable capital assets	47,597,900	47,481,753
Total capital assets	48,547,936	47,705,184
Accumulated depreciation	(25,876,900)	(24,599,414)
Total capital assets, net	$ 22,671,036	$ 23,105,770

At June 30, 2018, the District's net investment in capital assets amounted to $22,671,036 (net of accumulated depreciation). This investment in capital assets includes structures and improvements, transmission and distribution system and water equipment and construction-in-process. Major capital asset additions during the year include various improvements and equipment purchases totaling $999,266. See Note *5* for further information on the District's capital assets.

Contacting the District's Financial Management Team

The District's basic financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional information, please contact the District at the Twentynine Palms Water District, 72401 Hatch Road Twentynine Palms, California 92277 or (760) 367-7546.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TWENTYNINE PALMS WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities	Primary Government Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments (Note 2)	$ 16,181	$ 6,943,727	$ 6,959,908
Accrued interest receivable	-	20,123	20,123
Accounts receivable, net (Note 3)	-	797,483	797,483
Special assessments receivable	23,784	12,997	36,781
Materials and supplies inventory	-	171,880	171,880
Prepaid items	-	77,755	77,755
Total current assets	39,965	8,023,965	8,063,930
Non-current assets:			
Restricted – cash and investments (Note 2)	1,331,803	-	1,331,803
Capital assets – not being depreciated (Note 5)	-	950,036	950,036
Capital assets – being depreciated, net (Note 5)	-	21,721,000	21,721,000
Total non-current assets	1,331,803	22,671,036	24,002,839
Total assets	1,371,768	30,695,001	32,066,769
DEFERRED OUTFLOWS OF RESOURCES			
Other post-employment benefits obligation related (Note 7)	-	148,908	148,908
Pension related (Note 8)	402,869	805,770	1,208,639
Total deferred outflows of resources	402,869	954,678	1,357,547
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	20,683	254,391	275,074
Accrued salaries and benefits	-	41,907	41,907
Unearned revenues and deposits	-	383,776	383,776
Long-term liabilities – due within one year:			
Compensated absences (Note 6)	-	48,865	48,865
Total current liabilities	20,683	728,939	749,622
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (Note 6)	-	32,577	32,577
Net other post-employment benefits obligation (Note 7)	-	601,426	601,426
Net pension liability (Note 8)	320,883	2,297,360	2,618,243
Total non-current liabilities	320,883	2,931,363	3,252,246
Total liabilities	341,566	3,660,302	4,001,868
DEFERRED INFLOWS OF RESOURCES			
Other post-employment benefits obligation related (Note 7)	-	167,160	167,160
Pension related (Note 8)	293,402	274,614	568,016
Total deferred inflows of resources	293,402	441,774	735,176
NET POSITION			
Investment in capital assets	-	22,671,036	22,671,036
Restricted for pension liability (Note 9)	1,351,085	-	1,351,085
Unrestricted (Deficit) (Note 10)	(211,416)	4,876,567	4,665,151
Total net position	$ 1,139,669	$ 27,547,603	$ 28,687,272

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

TWENTYNINE PALMS WATER DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital and Operating Grants
Primary government:			
Governmental activities:			
Fire protection	$ 71,039	$ 87,218	$ -
Total governmental activities	71,039	87,218	-
Business-type activities:			
Water Operations	5,272,208	4,762,405	-
Total business-type activities	5,272,208	4,762,405	-
Total primary government	$ 5,343,247	$ 4,849,623	$ -

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

TWENTYNINE PALMS WATER DISTRICT

STATEMENT OF ACTIVITIES (continued)

For the Year Ended June 30, 2018

Functions/Programs	Net (Expense) Revenue and Changes in Net Position Governmental Activities	Business-Type Activities	Total
Primary government:			
Governmental activities:			
Fire protection	$ 16,179	$ -	$ 16,179
Total governmental activities	16,179	-	16,179
Business-type activities:			
Water Operations	-	(509,803)	(509,803)
Total business-type activities	-	(509,803)	(509,803)
Total primary government	16,179	(509,803)	(493,624)
General revenues:			
Rental revenue	-	121,055	121,055
Investment earnings	20,010	72,263	92,273
Gain on sale of capital assets	-	10,401	10,401
Other revenue	111,771	94,956	206,727
Transfers (Note 11)	40,000	(40,000)	-
Total general revenues and transfers	171,781	258,675	430,456
Special Item: (Note14)			
Transfer of fire revenues to San Bernardino County Fire District	(92,685)	-	(92,685)
Total special items	(92,685)	-	(92,685)
Change in net position	95,275	(251,128)	(155,853)
Net Position:			
Beginning of year, as previously reported	1,044,394	28,052,028	29,096,422
Less: Prior-period adjustment in net OPEB liability (Note 15)	-	(253,297)	(253,297)
Beginning of year	1,044,394	27,798,731	28,843,125
End of year	$ 1,139,669	$ 27,547,603	$ 28,687,272

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

FUND FINANCIAL STATEMENTS

TWENTYNINE PALMS WATER DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2018

	Fire Protection Fund		Special Revenue: Fire Explorers Fund		Total Governmental Funds	
ASSETS						
Assets:						
Cash and cash equivalents	$	14,780	$	1,401	$	16,181
Restricted – cash and investments		1,331,803		-		1,331,803
Special assessments receivable		23,784		-		23,784
Total assets	$	1,370,367	$	1,401	$	1,371,768
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued expenses		19,282		1,401		20,683
Total liabilities		19,282		1,401		20,683
Fund Balance:						
Restricted for pension liability (Note 9)		1,351,085		-		1,351,085
Total fund balance		1,351,085		-		1,351,085
Total liabilities and fund balance	$	1,370,367	$	1,401	$	1,371,768

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

TWENTYNINE PALMS WATER DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2018

Total Fund Balance – Total Governmental funds	$ 1,351,085
Amounts reported for governmental activities in the statement of net position are different because:	
Deferred outflows of resources used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those deferred outflows of resources.	402,869
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long term, are reported in the statement of net position as follows:	
Net pension liability	(320,883)
Deferred inflows of resources used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those deferred inflows of resources.	(293,402)
Total adjustments	(211,416)
Net Position – Governmental Activities	$ 1,139,669

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

TWENTYNINE PALMS WATER DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2018

	Fire Protection Fund	Special Revenue Fire Explorers Fund	Total Governmental Funds
Revenues:			
Investment earnings	$ 20,010	$ -	$ 20,010
Intergovernmental revenue	31,000	-	31,000
Penalties on delinquent payments	56,218	-	56,218
Other revenues	111,771	-	111,771
Total revenues	218,999	-	218,999
Expenditures:			
Fire protection			
Staff and payroll benefits	2,064	-	2,064
Total expenditures	2,064	-	2,064
Revenues over (under) expenditures	216,935	-	216,935
Other financing sources/(uses):			
Transfers in/(out) (Note 11)	40,000	-	40,000
Total other financing sources/(uses)	40,000	-	40,000
Special Item:			
Transfer of fire revenues to San Bernardino County Fire District	(92,685)	-	(92,685)
Total special item	(92,685)	-	(92,685)
Net change in fund balances	164,250	-	164,250
Fund Balances:			
Beginning of year	1,186,835	-	1,186,835
End of year	$ 1,351,085	$ -	$ 1,351,085

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

TWENTYNINE PALMS WATER DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

Net Change in Fund Balance - Total Governmental funds	$ 164,250
Amounts reported for governmental activities in the statement of activities are different because:	
Some expenses reported in the statement of activities do not require the use of current financial resources. Therefore, those expenses are not reported as expenditures in governmental funds as follows:	
Net change in net pension liability and related deferred resources	(68,975)
Total adjustments	(68,975)
Change in Net Position - Governmental Activities	$ 95,275

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

PROPRIETARY FUND FINANCIAL STATEMENTS

TWENTYNINE PALMS WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS (ENTERPRISE)
June 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current assets:	
Cash and investments	$ 6,943,727
Accrued interest receivable	20,123
Accounts receivable – water sales and services, net	797,483
Special assessments receivable	12,997
Materials and supplies inventory	171,880
Prepaid items	77,755
Total current assets	8,023,965
Non-current assets:	
Capital assets – not being depreciated	950,036
Capital assets – being depreciated, net	21,721,000
Total non-current assets	22,671,036
Total assets	30,695,001
Deferred outflows of resources:	
Other post-employment benefits obligation related	148,908
Pension related	805,770
Total deferred outflows of resources	954,678
Total assets and deferred outflows of resources	$ 31,649,679
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Current liabilities:	
Accounts payable and accrued expenses	$ 254,391
Accrued salaries and related payables	41,907
Unearned revenue and deposits	383,776
Long-term liabilities – due within one year:	
Compensated absences	48,865
Total current liabilities	728,939
Non-current liabilities:	
Long-term liabilities – due in more than one year:	
Compensated absences	32,577
Net other post-employment benefits obligation	601,426
Net pension liability	2,297,360
Total non-current liabilities	2,931,363
Total liabilities	3,660,302
Deferred inflows of resources:	
Other post-employment benefits obligation related	167,160
Pension related	274,614
Total deferred inflows of resources	441,774
Net position:	
Investment in capital assets	22,671,036
Unrestricted	4,876,567
Total net position	27,547,603
Total liabilities, deferred inflows of resources, and net position	$ 31,649,679

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

TWENTYNINE PALMS WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

PROPRIETARY FUNDS (ENTERPRISE)

For the Year Ended June 30, 2018

Operating revenues:	
Water consumption sales	$ 2,813,193
Water service charges	1,194,615
Water availability charge	620,558
Other service charges	134,039
Total operating revenues	4,762,405
Operating expenses:	
Source of supply	305,440
Pumping	210,914
Transmission and distribution	1,065,225
Customer accounts	257,463
General Plant	682,359
General and administrative	1,363,875
Total operating expenses	3,885,276
Operating income before depreciation	877,129
Depreciation expense	(1,386,932)
Operating (loss)	(509,803)
Non-operating revenues (expenses):	
Rental revenue	121,055
Investment earnings	72,263
Gain on sale of assets	10,401
Other non-operating revenue	94,956
Transfers in/(out) (Note 11)	(40,000)
Total non-operating revenues, net	258,675
Change in net position	(251,128)
Net position	
Beginning of year, as previously reported	28,052,028
Less: Prior-period adjustment in net OPEB liability (Note 15)	(253,297)
Beginning of year, as restated	27,798,731
End of year	$ 27,547,603

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

TWENTYNINE PALMS WATER DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (ENTERPRISE)

For the Year Ended June 30, 2018

Cash flows from operating activities:		
Cash receipts from customers and others	$	4,532,932
Cash paid to employees for salaries and wages		(3,374,412)
Cash paid to vendors and suppliers for materials and services		188,605
Net cash provided by operating activities		1,347,125
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(952,199)
Proceeds from sale of assets		10,401
Transfers in/(out)		(40,000)
Net cash (used in) capital and related financing activities		(981,798)
Cash flows from investing activities:		
Proceeds from investment earnings		60,008
Net cash provided by investing activities		60,008
Net increase in cash and investments		425,335
Cash and investments:		
Beginning of year		6,518,392
End of year	$	6,943,727

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

TWENTYNINE PALMS WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS (ENTERPRISE)
For the Year Ended June 30, 2018

Reconciliation of operating (loss) to net cash provided by operating activities:	
Operating (loss)	$ (509,803)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Deprecation expense	1,386,932
Rental revenue	121,055
Other non-operating revenue	94,956
Changes in assets – (increase) decrease:	
Accounts receivable-water sales and services, net	(38,483)
Special assessments receivable	26,017
Materials and supplies inventory	(17,213)
Prepaid items	2,994
Change in deferred outflows of resources – (increase) decrease:	
Pension related deferred outflows of resources	(418,799)
Changes in liabilities – increase (decrease):	
Accounts payable and accrued expenses	168,322
Accrued salaries and related payables	(1,126)
Unearned revenue and deposits	20,283
Compensated absences	13,236
Net other post-employment benefits obligation	(112,652)
Net pension liability	349,469
Change in deferred inflows of resources – increase (decrease):	
Pension related deferred inflows of resources	261,937
Total adjustments	1,856,928
Net cash provided by operating activities	$ 1,347,125

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Organization and Operations of the Reporting Entity

The Twentynine Palms Water District (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.

On July 1, 2017, the District reorganized its fire protection services to the San Bernardino County Fire Protection District per the San Bernardino County LAFCO decision on February 17, 2017. Therefore, no budgetary-to-actual activity has presented for the governmental funds in the Required Supplementary Information Section.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of U.S. GAAP. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable for a component that has substantively the same governing body as the District's governing body, and additionally (I) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit.

The Twentynine Palms Water District Financing Corporation (Corporation) has a financial and operational relationship which meets the reporting entity definition criteria under U.S. GAAP, for inclusion of the Corporation as a component unit 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. The Corporation is inactive as the District has no outstanding debt issues.

Basis of Accounting and Measurement Focus

The District's financial statements are prepared in conformity with U.S. GAAP. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

Government-Wide Financial Statements

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property 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.

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Government-Wide Financial Statements (Continued)

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the activities of the primary government. The effect of inter-fund activity has been removed from these statements and eliminations have been made to minimize the double counting of internal activities. 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues 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 not properly included among program revenues are reported instead as general revenues.

In accordance with U.S. GAAP, the statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental Funds

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements.

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

The primary revenue sources susceptible to accrual are property taxes, charges for services, and interests associated with the current fiscal period and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

The District reports the following major governmental funds:

Fire Protection Fund accounts for all financial resources of the District's fire activities.

Special Revenue Fund – Explorers Fund accounts for the donations received from a third-party not-for-profit organization that supports the District's Fire Explorer program.

Proprietary Funds

Proprietary funds are accounted for using the *"economic resources"* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 proprietary funds are charges to customers for sales and services. Operating expenses for the proprietary 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 non-operating revenues and expenses.

The District reports the following major proprietary fund:

Water Operations Fund- accounts for the funds received and expended for the District's water utility.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the repm1ed amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in District net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value.

Note 1– Reporting Entity and Summary of Significant Accounting Policies (Continued)

Investments

Investments are reported at fair value. Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

U.S. GAAP defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the balance sheet, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

> Level 1 inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.
>
> Level 2 inputs, other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
>
> Level 3 unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Accounts Receivable and Allowance for Doubtful Accounts

Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. Uncollectable accounts are based on prior experience and management's assessment of the collectability of existing accounts.

Special Assessments Receivable

The District contracts with the County of San Bernardino Tax Collector to collect the District's special assessments on the annual tax-roll billings. The County of San Bernardino Tax Collector remits the receipts from these collections to the District throughout the year.

Materials and Supplies Inventory

Inventories consist of expendable supplies and are valued at the lower of cost or market using first-in first-out basis.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year ended are recorded as prepaid items.

Note 1– Reporting Entity and Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets is equipment used at the District. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated acquisition value at the date of donation. Capital outlay is recorded as expenditures of the fire fund and as assets in the government-wide financial statements to the extent the District's capitalization threshold is met. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Asset Class Useful Lives	Asset Class Useful Lives
Buildings and structures	20 - 50 years
Improvements	20 - 70 years
Pumping and treatment equipment	10 - 25 years
Office equipment	3 - 10 years
Other equipment	3 - 20 years
Vehicles	5 years

Construction in progress includes all capitalized costs for expenditures directly incurred to bring a fixed asset to a useable condition. These capitalize costs will be recorded to capital assets when the asset is operational. At that time, the costs will be depreciated or amortized over the respective fixed asset's useful life.

Compensated Absences

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

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

Note 1– Reporting Entity and Summary of Significant Accounting Policies (Continued)

Postemployment benefits Other Than Pensions (OPEB)

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75), which establishes new accounting and financial reporting requirements for OPEB improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions and GASB 57. The Agency adopted GASB 75 beginning in the fiscal year ended June 30, 2018. Under GASB 75, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CalPERS plan governed by the Public Employees' Medical & Hospital Care Act (PEMHCA) and additions to/deductions from PEMHCA's fiduciary net position have been determined on the same basis as they are reported by PEMHCA. For this purpose, PEMHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 8). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

CalPERS	June 30, 2018
Valuation date	June 30, 2016
Measurement date	June 30, 2017
Measurement period	July 1, 2016 to June 30, 2017

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

Note 1– Reporting Entity and Summary of Significant Accounting Policies (Continued)

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net amount of assets that are not included in the determination of *restricted* or *net investment in capital assets.*

Fund Balance

The financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

Nonspendable - resources that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Restricted - resources with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.

Committed - resources that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned - resources that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the District's special revenue funds.

Unassigned - the residual classification for the District's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Board of Directors established, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

Fund Balance Policy

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted onetime expenditures.

Note 2 – Cash and Investments

Cash and investments as of June 30, 2018, were classified in the accompanying financial statements as follows:

Description		Balance
Cash and investments	$	6,959,908
Restricted – cash and investments		1,331,803
Total	$	8,291,711

Cash and investments as of June 30, 2018, consisted of the following:

Description		Balance
Cash on hand	$	1,350
Demand deposits with financial institutions		2,596,582
Investments		5,693,779
Total cash and investments	$	8,291,711

Demand Deposits

At June 30, 2018, the carrying amount of the District's demand deposits was $2,596,582 and the financial institution balance was $2,505,447. The $91,135 net difference as of June 30, 2018, represents outstanding checks, deposits-in transit and/or other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to $250,000 by the FDIC.

The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking.

Note 2 – Cash and Investments (Continued)

The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of, the local government.

Custodial Credit Risk

The 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 deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's investment policy requires that collateral be held by an independent third party with whom the District has a current custodial agreement.

The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District's investment policy requires that all security transactions are conducted on a delivery versus- payment (DVP) method and that all securities are held by a qualified, third-party custodian, as evidenced by safekeeping receipts. The trust department of the District's bank may act as third-party custodian, provided that the custodian agreement is separate from the banking agreement. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2018, none of the District's deposits and investments was exposed to disclosable custodial credit risk.

Investments

Investments as of June 30, 2018, consisted of the following:

Investments	Measurement Input	Credit Rating	Fair Value June 30, 2018	Maturity 12 Months or Less
External Investment Pools:				
California Local Agency Investment Fund (LAIF)	Uncategorized	n/a	$ 4,361,976	$ 4,361,976
Held with Fiscal Agent:				
PARS Pension Trust	Uncategorized	n/a	1,331,803	1,331,803
Total investments			$ 5,693,779	$ 5,693,779

Note 2 – Cash and Investments (Continued)

Authorized Investments and Investment Policy

The District has adopted an investment policy directing the Fiscal Officer to deposit funds in financial institutions.

Investments are to be made in the following areas:

External Investment Pools:
California Local Agency Investment Fund (LAIF)
Non-negotiable certificates-of-deposit
Governmental agency securities

Held with Fiscal Agent:
PARS Pension Trust

Investment in California- Local Agency Investment Fund (LAIF)

The District is a voluntary participant in LAIF which 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 entity'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. Further information about LAIF is available on the California State Controller's website: www.treasurer.ca.gov/pmia-laif/

The District's investment with LAIF at June 30, 2018, included a portion of the pool funds invested in structured notes and asset-backed securities:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities: generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

LAIF has indicated to the District that as of June 30, 2018, the value of LAIF's portfolio approximated $22.549 billion. As of June 30, 2018, the District had $4,361,976 invested in LAIF, which had invested 2.67% of the pool's investment funds in structured notes and medium-term asset-backed securities.

Note 2 – Cash and Investments (Continued)

Public Agency Retirement Services (PARS) Pension Trust

The District established an IRS Section 115 pension irrevocable trust account with the Public Agency Retirement Services (PARS) to hold assets that are legally restricted for use in administering the District's CalPERS Defined Benefit Safety Employees' Pension Plan. The PARS Trust's specific cash and investments are managed by a third party portfolio manager and invested under a pool arrangement using certain investment guidelines offered by PARS.

Fair Value Measurement Input

The District categorizes its fair value measurement inputs within the fair value hierarchy established by generally accepted accounting principles. The District has presented its measurement inputs as noted in the table above.

Credit Risk

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. As of June 30, 2018, the District's investment in the LAIF is noted in the table above.

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 fair values of investments with longer maturities have greater sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The District has elected to use the segmented time distribution method of disclosure for the maturities of its investments as related to interest rate risk as noted in the table above.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer beyond that stipulated by the California Government Code. There were no investments in any one governmental or non-governmental issuer that represented 5% or more of the District's total investments except for those in LAIF.

Note 3 – Accounts Receivable, Net

The accounts receivable, net balance as of June 30, 2018, consisted of the following:

Description	Balance
Accounts receivable – water sales and services	$ 1,083,962
Allowance for doubtful accounts	(286,479)
Total accounts receivable, net	$ 797,483

Note 4 – Special Assessments Receivable

The Water Fund receives water availability charge assessments of $30 for each parcel that is one acre or less, whether serviced or un-serviced. These amounts are increased by amounts ranging from $7.50 to $8.00 per acre for incremental acreage. For the year ended June 30, 2018, the District recorded revenue from this special assessment of $620,558 as water availability charges. At June 30, 2018, the outstanding balance of the special assessment receivable was $12,997.

Note 5 – Capital Assets

Changes in capital assets for the year were as follows:

Business-Type Activities

	Balance July 1, 2017	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2018
Non-depreciable capital assets:				
Land	$ 174,626	$ -	$ -	$ 174,626
Construction-in-process	48,805	773,672	(47,067)	775,410
Total non-depreciable capital assets	223,431	773,672	(47,067)	950,036
Depreciable capital assets:				
Source of supply plant	13,637,306	115,278	-	13,752,584
Pumping plant	434,992	-	-	434,992
Transmission and distribution plant	28,358,977	-	-	28,358,977
Buildings and structures	2,211,210	16,000	-	2,227,210
Office equipment	511,488	-	-	511,488
Transportation/heavy equipment	1,426,783	94,316	(109,446)	1,411,653
Radio and communication equipment	141,653	-	-	141,653
Field equipment and tolls	759,343	-	-	759,343
Total depreciable capital assets	47,481,752	225,594	(109,446)	47,597,900
Less accumulated depreciation	(24,599,414)	(1,386,932)	109,446	(25,876,900)
Total depreciable capital assets, net	22,882,338	(1,161,338)	-	21,721,000
Total capital assets, net	$ 23,105,769	$ (387,666)	$ (47,067)	$ 22,671,036

Note 5 – Capital Assets (Continued)

Business-Type Activities (Continued)

Construction in progress consist of several capital projects in which the District has expended $775,410, as of June 30, 2018. The District estimates that the projects are approximately 60% completed and will need to expend an additional $720,000 to bring the projects to completion.

Note 6 – Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

Changes in compensated absences balances for the year were as follows:

Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Current	Non-current
$ 68,206	$ 149,760	$ (136,524)	$ 81,442	$ 48,865	$ 32,577

Note 7 – Net Other Post-Employment Benefits Obligation

Plan Description -Eligibility and Benefits

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.

At June 30, 2018, the following employees were covered by the benefit terms:

	Number of Covered Employees
Active plan members	19
Inactive plan members or beneficiaries currently receiving benefit payments	2
Inactive plan members entitled to but not yet receiving benefit payments	-
Total Participants	21

Note 7 – Net Other Post-Employment Benefits Obligation (Continued)

Plan Description -Eligibility and Benefits (Continued)

Contribution requirements of the District are established by Ordinance and may be amended through board action to update the original Ordinance. For the year ended June 30, 2018, the District's average contribution rate was 13.55% of covered-employee payroll. Employees are not required to contribute to the plan.

Net OPEB Liability

The Agency's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	5.19% per annum		
Inflation	2.75% per annum		
Salary Increases	3.00% per annum, in aggregate		
Investment Rate of Return	6.00%		
Mortality Rate	CalPERS Membership Data		
Pre-Retirement Turnover	CalPERS Membership Data		
Healthcare Cost Trend Rates	HMO	7.0% decreasing to	4.5% over future periods
	PPO	7.5% decreasing to	4.5% over future periods

Mortality rates were based on the CalPERS experience study, with adjustments for mortality improvements projected fully generational with Scale MP-17.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of a CalPERS actuarial experience study for the period 1997-2015.

Note 7 – Net Other Post-Employment Benefits Payable (Continued)

Net OPEB Liability (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation*	Long-Term Expected Real Rate of Return[1] [2]
Global Equity	24.0%	5.50%
Global Fixed Income	39.0%	2.35%
Inflation Assets	26.0%	1.50%
Commodities	3.0%	1.75%
REITs	8.0%	3.65%
Total	100.0%	

[1] Assumed long-term rate of inflation is 2.75%.
[2] Long-term expected rate of return is 6.00%
* CERBT asset allocation Strategy 3.

Discount rate: The discount rate used to measure the total OPEB liability was 5.19 percent. The projection of cash flows used to determine the discount rate assumed that Plan Assets will always exceed benefit payments. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Note 7 – Net Other Post-Employment Benefits Payable (Continued)

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	NET OPEB Liability/(Asset) (a) - (b)
Balance at June 30, 2017	$ 1,090,121	$ -	$ 1,090,121
Changes for the year:			
Service cost	60,309	-	60,309
Interest	31,862	-	31,862
Changes of assumptions	(187,021)	-	(187,021)
Contributions - employer	-	376,043	(376,043)
Net investment income	-	17,901	(17,901)
Benefit payments	(64,899)	(64,899)	-
Administrative expense	-	(99)	99
Net changes	$ (159,749)	$ 328,946	$ (488,695)
Balance at June 30, 2018	$ 930,372	$ 328,946	$ 601,426

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates:
The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage-point lower or 1.00 percentage-point higher than the current discount rate:

	1% Decrease (4.19%)	Current Discount Rate (5.19%)	1% Increase (6.19%)
Net OPEB liability	$ 677,179	$ 601,426	$ 531,770

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates:
The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.00 percentage point lower or 1.00 percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
	(5.00% HMO and 5.50% PPO decreasing to 4.00% HMO and 4.00% PPO)	(6.00% HMO and 6.50% PPO decreasing to 5.00% HMO and 5.00% PPO)	(7.00% HMO and 7.50% PPO decreasing to 6.00% HMO and 6.00% PPO)
Net OPEB liability	$ 515,355	$ 601,426	$ 699,835

Note 7 – Net Other Post-Employment Benefits Payable (Continued)

Changes in the Net OPEB Liability (Continued)

OPEB plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CalPERS financial report.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the District recognized OPEB expense of $54,508. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ -	$ (160,304)
Net difference between projected and actual earnings on OPEB plan investments	-	(6,856)
Employer contributions made subsequent to the measurement date	148,908	-
Total	$ 148,908	$ (167,160)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30:	Deferred Outflows/(Inflows) of Resources
2019	$ (28,431)
2020	(28,431)
2021	(28,431)
2022	(28,431)
2023	(26,717)
Thereafter	(26,719)

Note 8 – Net Pension Liability and Defined Benefit Pension Plan

General Information about the Pension Plans

The Plans' Description Schedule

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

Miscellaneous Plans

	Miscellaneous Plans	
	Classic Tier 1	**PEPRA Tier 2**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% at 55	2.0% at 62
Benefit vesting schedule	5 years of service	5 years of servce
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a percentage of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required member contribution rates	8.000%	6.250%
Required employer contribution rates	11.995%	6.555%

Safety Plan

	Safety Plan
	Classic Tier 1
Hire date	Prior to January 1, 2013
Benefit formula	3.0% at 55
Benefit vesting schedule	5 years of service
Benefits payments	monthly for life
Retirement age	50 - 67 & up
Monthly benefits, as a percentage of eligible compensation	2.4% to 3.0%
Required member contribution rates	8.000%
Required employer contribution rates	16.656%

Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2016 Annual Actuarial Valuation Report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

General Information about the Pension Plans (Continued)

Members Covered by Benefit Terms

At June 30, 2016 (Valuation Date), the following members were covered by the benefit terms:

	Miscellaneous Plans		
Plan Members	Classic Tier 1	PEPRA Tier 2	Total
Active Members	12	5	17
Transferred and terminated members	22	-	22
Retired members and beneficiaries	17	-	17
Total plan members	51	5	56

	Safety Plan
Plan Members	Classic Tier 1
Active members	-
Transferred and terminated members	12
Retired members and beneficiaries	6
Total plan members	18

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A Classic CalPERS Miscellaneous member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. Public Employees' Pension Reform Act (PEPRA) Miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 full-time equivalent monthly pay. Retirement benefits for Classic Miscellaneous and Safety members are calculated as a percentage of their plan based the average final 36 months compensation. Retirement benefits for PEPRA Miscellaneous members are calculated as a percentage of their plan based the average final 36 months compensation.

Participant members are eligible for non-industrial disability retirement if they become disabled and have at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

A member's beneficiary may receive the basic death benefit if the member dies while actively employed. The member must be actively employed with the District to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit.

Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

General Information about the Pension Plans (Continued)

Benefits Provided (Continued)

The basic death benefit is a lump sum in the amount of the members' accumulated contributions, where interest is currently credited at 7.65 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of $500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 3%.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers will be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The public agency cost-sharing plans covered by the Miscellaneous risk pool, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of members. For the measurement period ended June 30, 2017 (Measurement Date), the active member contribution rate for the Classic Miscellaneous Plan and the PEPRA Miscellaneous Plan are based above in the Plans Description schedule.

For the year ended June 30, 2018, the contributions made to the Plan were as follows:

	Miscellaneous Plans		
Contribution Type	**Classic Tier 1**	**PEPRA Tier 2**	**Total**
Contributions – employer	$ 198,641	$ 15,957	$ 214,598
Contributions – members	69,627	15,127	84,754
Total contributions	$ 268,268	$ 31,084	$ 299,352

	Safety Plan
Contribution Type	**Classic Tier 1**
Contributions – employer	$ 2,064
Contributions – members	-
Total contributions	$ 2,064

Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans

Actuarial Methods and Assumptions Used to Determine the Total Pension Liability

For the measurement period ended June 30, 2017 (Measurement Date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2016 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry age normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75% per annum
Salary Increases	Varies by entry age and service
Mortality Rate	Derived using CalPERS' Membership Data
Post-Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies; 2.75% thereafter

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The long-term expected rate of return on the pension plan investments was determined in which best-estimate ranges of expected future real rates are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were considered. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

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

Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Discount Rate (Continued)

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

Investment Type	New Strategic Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	(0.40%)	(0.90%)
	100.00%		

[1] An expected inflation rate of return of 2.5% is used for this period.

[2] An expected inflation rate of return of 3.0% is used for this period.

Sensitivity of the District's Proportionate Share a [the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00 percentage-point lower or 1.00 percentage-point higher than the current rate:

	Plan's Net Pension Liability/(Asset)		
Plan Type	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
CalPERS – Miscellaneous Plan	$ 3,636,580	$ 2,297,360	$ 1,188,194

	Plan's Net Pension Liability/(Asset)		
Plan Type	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
CalPERS – Safety Plan	$ 808,743	$ 320,883	$ (77,918)

Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Pension Plan Fiduciary Net Position

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plans proportionate share of the risk pool collective net pension liability over the measurement period for the CalPERS Miscellaneous and Safety Plans as follows:

Plan Type and Balance Descriptions	Plan Total Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2016 (Measurement Date)	$ 8,566,425	$ 6,618,534	$ 1,947,891
Balance as of June 30, 2017 (Measurement Date)	9,736,459	7,439,099	2,297,360
Change in Plan Net Pension liability	$ 1,170,034	$ 820,565	$ 349,469

Plan Type and Balance Descriptions	Plan Total Pension	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
CalPERS – Safety Plan:			
Balance as of June 30, 2016 (Measurement Date)	$ 3,043,284	$ 2,803,270	$ 240,014
Balance as of June 30, 2017 (Measurement Date)	3,486,778	3,165,895	320,883
Change in Plan Net Pension Liability	$ 443,494	$ 362,625	$ 80,869

Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

1. In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2015). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.

2. Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 20 16). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2015-16 fiscal year).

3. The individual plan's TPL, FNP and NPL are also calculated at the valuation date.

4. Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.

5. The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

6. The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

The District's proportionate share of the net pension liability was as follows:

	Percentage Share of Risk Pool		
CalPERS – Miscellaneous Plan	**Fiscal Year Ending June 30, 2018**	**Fiscal Year Ending June 30, 2017**	**Change Increase/ (Decrease)**
Measurement Date	June 30, 2017	June 30, 2016	
Percentage of Risk Pool Net Pension liability	0.058278%	0.056073%	0.002205%
Percentage of Plan (PERF C) Net Pension Liability	0.023165%	0.022511%	0.000654%

	Percentage Share of Risk Pool		
CalPERS – Safety Plan	**Fiscal Year Ending June 30, 2018**	**Fiscal Year Ending June 30, 2017**	**Change Increase/ (Decrease)**
Measurement Date	June 30, 2017	June 30, 2016	
Percentage of Risk Pool Net Pension Liability	0.005370%	0.004634%	0.000736%
Percentage of Plan (PERF C) Net Pension liability	0.003236%	0.002774%	0.000462%

For the year ended June 30, 2018, the District recognized pension expense (credit) in the amount of $386,537 for the CalPERS Miscellaneous and Safety Plans.

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

Twentynine Palms Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The expected average remaining service lifetime (EARSL) for PERF C for the measurement date ending June 30, 2017 is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous		Safety	
Account Description	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made after the measurement date	$ 214,598	$ -	$ 2,064	$ -
Difference between actual and proportionate share of employer contributions	-	(118,214)	194,967	(78,548)
Adjustment due to difference in proportions	89,732	(78,509)	15,780	(200,868)
Differences between expected and actual experience	3,274	(46,912)	10,183	(2,655)
Differences between projected and actual earnings on pension plan investments	91,884	-	32,199	-
Changes in assumptions	406,282	(30,979)	147,676	(11,331)
Total Deferred Outflows/(Inflows) of Resources	$ 805,770	$ (274,614)	$ 402,869	$ (293,402)

The District will recognize $216,662 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2018, as noted above.

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized to pension expense in future periods as follows:

Amortization Period	Deferred Outflows/(Inflows) of Resources	
June 30	Miscellaneous	Safety
2019	$ 8,599	$ 15,907
2020	235,033	69,437
2021	127,479	40,900
2022	(54,553)	(18,841)
2023	-	-
Thereafter	-	-
Total	$ 316,558	$ 107,403

Note 9 – Restricted Net Position

On July 1, 2016, the District reorganized its fire protection services to the San Bernardino County Fire Protection District per the San Bernardino County LAFCO decision on February 17, 2017. The District is in the process of closing out its Fire Protection and Fire Explorers funds. The District has a written agreement with the City of Twentynine Palms (City) where the City has taken all responsibility for the payment of the CalPERS VAL/Termination Liability for the District's CalPERS Safety Plan, at a time to be determined by the City. The District established an IRS Section 115 pension irrevocable trust account with the Public Agency Retirement Services (PARS) to hold assets that are legally restricted for use in administering the District's CalPERS Defined Benefit Safety Employees' Pension Plan. The District will be transferring its remaining operational cash balance in the Fire Protection Fund to the PARS Pension Trust to assist the City with the final payment of the CalPERS VAL/Termination Liability for the District's CalPERS Safety Plan as follows:

The following is a calculation of the District's restricted net position.

Account Description	Balance
Cash and investments	$ 14,780
Less: Accounts payable and accrued expenses	(19,282)
Total cash after payment of accounts payable and accrued expenses	(4,502)
Add: Special assessments receivable	23,784
Total cash available for transfer to PARS Pension Trust	19,282
Restricted – cash and investments held in PARS Pension Trust	1,331,803
Total restricted net position for pension liability	$ 1,351,085

Note 10 – Unrestricted Net Position

The District's governmental activities unrestricted net position deficit is related to the District's net pension liability and related deferred outflows/inflows recorded in accordance with GASB Statement No. 68. As noted in Note 9, the District has a written agreement with the City of Twentynine Palms where the City has taken all responsibility for the payment of the CalPERS VAL/Termination Liability for the District's CalPERS Safety Plan, at a time to be determined by the City. Therefore, this deficit balance will be funded by the City along with the PARS Pension Trust in a future period.

Account Description	Balance
Pension related deferred outflows of resources	$ 402,869
Net pension liability	(320,883)
Pension related deferred inflows of resources	(293,402)
Total unrestricted net position (deficit)	$ (211,416)

Note 11 – Transfers In/ (Out)

Fund Name	Transfers In	Transfers Out
Fire protection	$ 40,000	$ -
Water operations	-	(40,000)
Total	$ 40,000	$ (40,000)

The District has an agreement with the City of Twentynine Palms where the District will transfer $40,000 per year from its Water Operations Fund annual cell tower site-lease revenues to the City until fiscal year 2019. In 2018, the City directed the District to deposit the $40,000 into the PARS Pension Trust.

Note 12 – 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, 2018, there were no claims liabilities to be reported. During the year ended June 30, 2018, 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, 2018, the District's participation in the self-insurance programs of the JPIA was as follows:

Property loss is insured up to replacement value with deductibles starting from $1,000: the JPIA is self-insured up to $100,000 and has purchased excess insurance coverage. General liability is insured up to $60,000,000 with no deductible: the JPIA is self-insured up to $2,000,000 and has purchased excess insurance coverage. Auto liability is insured up to $60,000,000 with no deductible: the JPIA is self-insured up to $2,000,000 with $1,000 deductible for property damage and has purchased excess insurance coverage.

Special District's Workers' Compensation Authority

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

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

Note 13 – Commitments and Contingencies

Grants

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.

Litigation

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.

Note 14 – Transfer of Fire Operation to San Bernardino County Fire Protection District

On July 1, 2017, the District reorganized its fire protection services to the San Bernardino County Fire District per the San Bernardino County LAFCO decision on February 17, 2017. According to the executed Assignment and Assumption Agreement between the City of Twentynine Palms (City) and the District, the District closed its CalPERS Defined Benefit Safety Employees' Pension Plan (Plan) to new members as of June 30, 2017. The District will continue to adjust its net pension liability for the Plan as the net pension obligation changes annually with changes in the CalPERS annual actuarial valuation. In an effort to facilitate the annexation, the City has agreed to pay all future Plan obligation payments regardless of whether the Safety Employees PARS 115 Trust Fund has sufficient funds to make any and all future CalPERS obligation payments. The City has also agreed to pay the Plan's withdrawal liability, as required, directed, or permitted by CalPERS, and the City has the discretion to choose and direct the Water District on when that liability will be paid. Any further fire revenues received by the District are split 50/50 and submitted to the City of Twentynine Palms and the County of San Bernardino Fire Protection District, respectively.

Note 15 – Prior-Period Adjustment of Net Position

The net position at the beginning of 2018 has been restated to decrease the net position to reflect the prior period costs related to the implementation of the net OPEB liability.

	Amount
Net Position, July 1, 2017, Originally Stated	$ 29,096,422
Net OPEB Liability	(253,297)
Net Position, July 1, 2017, Restated	$ 28,843,125

Note 16 – Subsequent Events

In the preparation of these financial statements, the Agency considered subsequent events through November 2, 2018, which is the date these financial statements were issued. No events occurred through this date requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

TWENTYNINE PALMS WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE PLAN'S NET PENSION LIABILITY

For the Year Ended June 30, 2018

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS)

Measurement Date	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**
Employer's Proportion of the Net Pension Liability	0.026401%	0.025285%	0.028234%	0.028313%
Employer's Proportionate Share of the Net Pension Liability	$ 2,618,243	$ 2,187,905	$ 1,937,958	$ 1,761,770
Employer's Covered Payroll	$ 1,051,407	$ 1,381,292	$ 1,341,060	$ 1,302,000
Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	249.02%	158.40%	144.51%	135.31%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	73.31%	74.06%	78.40%	83.02%

TWENTYNINE PALMS WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS TO THE PENSION PLAN

For the Year Ended June 30, 2018

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS)

Fiscal Year	2017-18	2016-17	2015-16	2014-15	2013-14
Actuarially Determined Contribution	$ 216,661	$ 197,902	$ 245,003	$ 234,149	$ 225,220
Contribution in Relation to the Actuarially Determined Contribution	(216,661)	(197,902)	(682,065)	(234,149)	(481,274)
Contribution Deficiency (Excess)	$ -	$ -	$ (437,062)	$ -	$ (256,054)
Covered Payroll	$ 1,084,161	$ 1,051,407	$ 1,381,292	$ 1,341,060	$ 1,302,000
Contributions as a Percentage of Covered Payroll	19.98%	18.82%	49.38%	17.46%	36.96%

[1] Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

[2] Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

[3] Covered Payroll represented above is based on payroll on which contributions to a pension plan are based per GASBS No. 82.

Notes to the Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

TWENTYNINE PALMS WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS

For the Year Ended June 30, 2018

Last Ten Fiscal Years***

Fiscal Year Ended		2018
Measurement Period		2016/2017
Changes in total OPEB liability:		
Service cost	$	60,309
Interest		31,862
Difference between expected and actual experience		-
Changes in assumptions		(187,021)
Changes of benefit terms		-
Benefit payments including refunds*		(64,899)
Net changes		(159,749)
Total OPEB liability (beginning)		1,090,121
Total OPEB liability (ending)	$	930,372
Changes in plan fiduciary net position:		
Contributions – employer*	$	376,043
Contributions – employee		-
Net investment income		17,901
Benefit payments including refunds*		(64,899)
Administrative expense		(99)
Net changes		328,946
Plan fiduciary net position (beginning)		-
Plan fiduciary net position (ending)	$	328,946
Net OPEB liability (ending)	$	601,426
Plan fiduciary net position as a percentage of the total OPEB liability		35.4%
Covered employee payroll	$	1,100,000
Net OPEB liability as a percentage of covered payroll		54.7%

* Includes $18,544 implied subsidy benefit payments

** For the 12-month period ending on June 30, 2017 (measurement date)

*** Historical information is required only for measurement periods for which GASB 75 is applicable. Additional years will be added as they become available in the future.