



Twentynine Palms Water District

Twentynine Palms, California

Annual Financial Report

For the Year Ended June 30, 2025
(with summarized comparative financial information 2024)



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FINANCIAL SECTION



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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of Twentynine Palms Water District (District) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2025, and the changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), 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*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards*, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

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 52 through 54, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Report on Summarized Comparative Information

We have previously audited the District's June 30, 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 17, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2025, 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 solely 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

Riverside, California
December 31, 2025

TWENTYNINE PALMS WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)
For the year ended June 30, 2025

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Twentynine Palms Water District (District) introduces the financial statements of the District for the fiscal year ended June 30, 2025. 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 increased 0.89%, or \$249,409, from \$28,134,973 to \$28,384,382 for the year ended June 30, 2025.

- Total revenues from all sources for the District for the year ended June 30, 2025, increased by 7.59%, or \$584,131, from \$7,693,471 for the year ended June 30, 2024 to \$8,277,602.
- Total expenses for the District's operations for the year ended June 30, 2025 increased by 10.14% or \$ 738,979, from \$7,289,214 for the year ended June 30, 2024 to \$8,028,193.

Using This Financial Report

These financial statements consist of several interrelated statements designed to provide the reader with relevant, understandable data about the District's financial condition and operating results.

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position provide information about the activities and performance of the District using accounting methods like those used by private sector companies. The Statements of Net Position includes all 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. The current year's revenue and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. 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. The Statement of Cash Flows conveys to financial statement readers how the District managed cash resources during the year. This statement converts the Change in Net Position presented on the Statement of Revenues, Expenses and Changes in Net Position into actual cash provided by or used for operations. The Statement of Cash Flows also details how the District obtains cash through financing and investing activities and, conversely, how cash is spent for these purposes.

TWENTYNINE PALMS WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)
For the year ended June 30, 2025

Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position

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 Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position 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 the current year's revenues and expenses are considered 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.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the 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.

TWENTYNINE PALMS WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)
For the year ended June 30, 2025

Condensed Statements of Net Position

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Assets:		
Current assets	\$ 13,441,851	\$ 12,277,772
Noncurrent assets	<u>21,322,737</u>	<u>21,851,472</u>
Total Assets	<u>34,764,588</u>	<u>34,129,244</u>
 Deferred Outflows of Resources	 <u>1,386,064</u>	 <u>1,802,873</u>
 Liabilities		
Current liabilities	1,803,109	1,494,154
Long-term obligations	<u>4,566,902</u>	<u>4,688,062</u>
Total Liabilities	<u>6,370,011</u>	<u>6,182,216</u>
 Deferred Inflows of Resources	 <u>1,396,259</u>	 <u>1,614,928</u>
 Net Position		
Net investment in capital assets	19,701,100	19,898,738
Unrestricted Net Position	<u>8,683,282</u>	<u>8,236,235</u>
Total Net Position	<u>\$ 28,384,382</u>	<u>\$ 28,134,973</u>

As of June 30, 2025, the District reported a net position of \$28,384,382. An amount of \$8,683,282 constitutes the District's unrestricted net position balance which is available for future operations at June 30, 2025.

TWENTYNINE PALMS WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)
For the year ended June 30, 2025

Statement of Revenues, Expenses and Changes in Net Position Proprietary Funds

Condensed Statements of Revenues, Expenses, and Changes in Net Position		
	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Operating Revenue	\$ 7,448,597	\$ 6,965,059
Operating Expenses	(8,028,193)	(7,289,214)
Non-Operating Revenue, Net	<u>829,005</u>	<u>728,412</u>
Total Change in Net Position	249,409	404,257
 Net Position, Beginning of Year	 <u>28,134,973</u>	 <u>27,730,716</u>
Net Position, End of Year	<u>\$ 28,384,382</u>	<u>\$ 28,134,973</u>

The statement shows how the fund's net position changed during the fiscal year. In the case of the District, net position increased by \$249,409 during the fiscal year ended June 30, 2025.

Revenues

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Revenues:		
Water consumption sales	\$ 4,366,349	\$ 3,956,308
Water service charges	2,014,166	1,821,710
Water availability charge	629,887	626,480
Other service charges	438,195	560,561
Rental revenue	182,472	171,593
Investment earnings	447,919	466,453
Other non-operating revenue	<u>198,614</u>	<u>90,366</u>
Total Revenues	<u>\$ 8,277,602</u>	<u>\$ 7,693,471</u>

Revenues increased \$584,131 for the year ended June 30, 2025. Notable increases include water consumption sales of \$410,041 and water service charges of \$192,456 in combination with minor changes in other categories. These notable increases are offset by decreases in other service charges of \$122,366 and investment earnings of \$18,534.

TWENTYNINE PALMS WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)
For the year ended June 30, 2025

Expenses

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Expenses:		
Source of supply	\$ 473,798	\$ 509,258
Pumping	416,698	324,325
Transmission and distribution	2,022,919	1,898,252
Customer accounts	428,526	435,105
General plant	781,997	624,064
General and administrative	2,492,072	2,114,386
Depreciation expense	1,412,183	1,383,824
Total Expenses	<u>\$ 8,028,193</u>	<u>\$ 7,289,214</u>

Expenses increased \$738,979 for the year ended June 30, 2025. Many types of expenses experienced increases with the largest increase found in general plant, general and administrative and transmission and distribution expenses.

Capital Asset Administration

Capital assets were as follows:

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Non-depreciable capital assets	\$ 605,077	\$ 391,364
Depreciable capital assets	<u>54,497,261</u>	<u>53,851,486</u>
Total capital assets	55,102,338	54,242,850
Accumulated depreciation	<u>(34,598,773)</u>	<u>(33,327,315)</u>
Total capital assets, net	<u>\$ 20,503,565</u>	<u>\$ 20,915,535</u>

Net investment in capital assets includes structures and improvements, transmission and distribution system and water equipment and construction-in-process, net of related liabilities. At June 30, 2025, the District's net investment in capital assets amounted to \$19,701,100, which is comprised of \$20,503,565 of capital assets, net of related liabilities of \$802,465. Major capital asset additions during the year include various improvements and equipment purchases totaling \$1,004,200. See Note 4 for further information on the District's capital assets.

TWENTYNINE PALMS WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)
For the year ended June 30, 2025

Debt Administration

Changes in long-term liabilities for the year ended June 30, 2025, are as follows:

	Balance at July 1, 2024	Increases	Decreases	Balance at June 30, 2025
Note from direct borrowings	\$ 1,016,797	\$ -	\$ (214,332)	\$ 802,465
Compensated absences	174,344	111,242	-	285,586
Net OPEB liability	197,192	44,052	-	241,244
Net pension liability	3,618,667	-	(32,250)	3,586,417
	<u>\$ 5,007,000</u>	<u>\$ 155,294</u>	<u>\$ (246,582)</u>	<u>\$ 4,915,712</u>

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

TWENTYNINE PALMS WATER DISTRICT

STATEMENTS OF NET POSITION

June 30, 2025 (with comparative financial information for 2024)

	2025	2024
ASSETS		
Current Assets		
Cash and investments	\$ 11,596,133	\$ 10,590,899
Restricted - cash and investments	110,437	101,315
Accounts receivable - water sales and services, net	1,139,576	1,053,395
Accrued interest receivable	20,403	20,076
Special assessments receivable	42,417	31,206
Materials and supplies inventory	294,819	274,505
Prepaid items	117,417	91,713
Lease receivable	120,649	114,663
Total Current Assets	13,441,851	12,277,772
Noncurrent Assets		
Lease receivable	819,172	935,937
Capital assets - not being depreciated	605,077	391,364
Capital assets - being depreciated, net	19,898,488	20,524,171
Total Noncurrent Assets	21,322,737	21,851,472
Total Assets	34,764,588	34,129,244
DEFERRED OUTFLOWS OF RESOURCES		
Other post-employment benefits obligation related	192,562	210,004
Pension related	1,193,502	1,592,869
Total Deferred Outflows of Resources	1,386,064	1,802,873
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	562,367	339,845
Accrued salaries and benefits	53,634	35,843
Unearned revenue and deposits	838,298	799,528
Long-term liabilities - due within one year:		
Loan payable	220,919	214,332
Compensated absences	127,891	104,606
Total Current Liabilities	1,803,109	1,494,154
Noncurrent Liabilities		
Long-term liabilities - due in more than one year:		
Loan payable	581,546	802,465
Compensated absences	157,695	69,738
Net other post-employment benefits obligation	241,244	197,192
Net pension liability	3,586,417	3,618,667
Total Noncurrent Liabilities	4,566,902	4,688,062
Total Liabilities	6,370,011	6,182,216
DEFERRED INFLOWS OF RESOURCES		
Lease receivable related	833,821	952,952
Other post-employment benefits obligation related	467,119	503,035
Pension related	95,319	158,941
Total Deferred Inflows of Resources	1,396,259	1,614,928
NET POSITION		
Net investment in capital assets	19,701,100	19,898,738
Unrestricted	8,683,282	8,236,235
Total Net Position	\$ 28,384,382	\$ 28,134,973

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

TWENTYNINE PALMS WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended June 30, 2025 (with comparative financial information for 2024)

	2025	2024
Operating Revenue		
Water consumption sales	\$ 4,366,349	\$ 3,956,308
Water service charges	2,014,166	1,821,710
Water availability charge	629,887	626,480
Other service charges	438,195	560,561
Total Operating Revenue	<u>7,448,597</u>	<u>6,965,059</u>
Operating Expenses		
Source of supply	473,798	509,258
Pumping	416,698	324,325
Transmission and distribution	2,022,919	1,898,252
Customer accounts	428,526	435,105
General plant	781,997	624,064
General and administrative	2,492,072	2,114,386
Total Operating Expenses	<u>6,616,010</u>	<u>5,905,390</u>
Operating Income Before Depreciation	832,587	1,059,669
Depreciation expense	<u>(1,412,183)</u>	<u>(1,383,824)</u>
Operating Loss	<u>(579,596)</u>	<u>(324,155)</u>
Non-Operating Revenues (Expenses)		
Rental revenue	182,472	171,593
Investment earnings	447,919	466,453
Interest expense	(27,795)	(34,248)
Other non-operating revenue	226,409	124,614
Total Non-Operating Revenues (Expenses)	<u>829,005</u>	<u>728,412</u>
Change in Net Position	249,409	404,257
Net Position, Beginning of Year	<u>28,134,973</u>	<u>27,730,716</u>
Net Position, End of Year	<u><u>\$ 28,384,382</u></u>	<u><u>\$ 28,134,973</u></u>

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

TWENTYNINE PALMS WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2025 (with comparative financial information for 2024)

	2025	2024
Cash Flows From Operating Activities		
Cash receipts from customers and others	\$ 7,620,370	\$ 7,036,153
Cash paid to employees for salaries and wages	(3,135,256)	(2,851,554)
Cash paid to vendors and suppliers for materials and services	(2,846,144)	(2,742,529)
Net Cash From Operating Activities	<u>1,638,970</u>	<u>1,442,070</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,004,199)	(516,430)
Principal and interest payments on long-term debt	(242,127)	(243,810)
Net Cash Used For Capital and Related Financing Activities	<u>(1,246,326)</u>	<u>(760,240)</u>
Cash Flows From Investing Activities		
Proceeds from investment earnings	447,592	466,823
Proceeds from leases	174,120	157,281
Net Cash From Investing Activities	<u>621,712</u>	<u>624,104</u>
Net Increase in Cash and Investments	<u>1,014,356</u>	<u>1,305,934</u>
Cash and Investments		
Beginning of year	10,692,214	9,386,280
End of year	<u>\$ 11,706,570</u>	<u>\$ 10,692,214</u>
Classification on Statements of Net Position		
Cash and investments	\$ 11,596,133	\$ 10,590,899
Restricted - cash and investments	110,437	101,315
	<u>\$ 11,706,570</u>	<u>\$ 10,692,214</u>

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

TWENTYNINE PALMS WATER DISTRICT

STATEMENTS OF CASH FLOWS (CONTINUED)

For the year ended June 30, 2025 (with comparative financial information for 2024)

Reconciliation of Operating Income to Net Cash From Operating Activities:

Operating Loss	\$ (579,596)	\$ (324,155)
Adjustments to Reconcile Operating Loss to Net Cash From (Used For) Operating Activities		
Depreciation and amortization expense	1,412,183	1,383,824
Provision for bad debt	19,728	(262,517)
Other non-operating revenue	230,395	124,614
Changes in Assets – (Increase) Decrease		
Accounts receivable-water sales and services	(105,909)	193,760
Special assessments receivable	(11,211)	(5,303)
Materials and supplies inventory	(20,314)	(46,739)
Prepaid items	(25,704)	(7,828)
Change in Deferred Outflows of Resources – (Increase) Decrease		
Pension and OPEB related deferred outflows of resources	416,809	50,697
Changes in Liabilities – Increase (Decrease)		
Accounts payable and accrued expenses	222,522	31,997
Accrued salaries and related payables	17,791	6,672
Unearned revenue and deposits	38,770	20,540
Compensated absences	111,242	4,852
Net other post-employment benefits obligation	44,052	(27,751)
Net pension liability	(32,250)	327,469
Change in Deferred Inflows of Resources – Increase (Decrease)		
Pension, OPEB and lease related deferred inflows of resources	(99,538)	(28,062)
Total Adjustments	<u>2,218,566</u>	<u>1,766,225</u>
Net Cash From Operating Activities	<u>\$ 1,638,970</u>	<u>\$ 1,442,070</u>

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

NOTES TO THE FINANCIAL STATEMENTS

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

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.

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 (1) 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.

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.

The District reports its activities as a proprietary fund (enterprise fund). 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.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the 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.

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 1, 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. Allowance for doubtful accounts was \$224,755 at June 30, 2025.

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. The Water Operations 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.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

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

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.

Lease Receivable

Lease receivable is measured at the present value of lease payments expected to be received during the lease term. A deferred inflow is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. 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. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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 - 7 years

Construction in progress includes all capitalized costs for expenditures directly incurred to bring a capital asset to a useable condition. These capitalized 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 capital asset’s useful life.

Right-to-use Assets

The right-to-use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use assets, which are included in capital assets in the statement of net position, are amortized on a straight-line basis over the life of the related lease.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

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

Deferred Outflows and Inflows of Resources

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, will not be recognized as a revenue until that time.

Compensated Absences

The District recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment. Based on criteria listed, two types of leave qualify for liability recognition for compensated absences – vacation and sick leave. The liability for compensated absences is recorded in the District's financial statements. The liability for compensated absences includes salary related benefits, where applicable.

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.

Sick leave with pay will be granted to each employee at the rate of one 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.

Postemployment Benefits Other Than Pensions (OPEB)

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.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2025

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

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, 2025
Valuation date	June 30, 2023
Measurement date	June 30, 2024
Measurement period	July 1, 2023 to June 30, 2024

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.

Net Position

In the statement of net position, net position is categorized as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.

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*.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

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

New GASB Pronouncements Effective During Fiscal Year

The following Government Accounting Standards Board (GASB) pronouncements were effective for and/or early implemented for the fiscal year ended June 30, 2025:

GASB Statement No. 101, Compensated Absences

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligations. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensation absences. Management evaluated the cumulative impact of implementing standard on prior-year financial statements and concluded the effect was immaterial. Accordingly, no adjustment to beginning net position was recorded, and the impact of adoption was recognized in the current year.

GASB Statement No. 102, Certain Risk Disclosures

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to a government's financial condition.

Note 2 – Cash and Investments

Cash and investments as of June 30, 2025 consisted of the following:

Cash on hand	\$ 1,350
Demand deposits with financial institutions	1,872,164
Investments	9,833,056
Total Cash and Investments	\$ 11,706,570

Demand Deposits

At June 30, 2025, the carrying amount of the District's demand deposits was \$1,872,164 and the financial institution balance was \$1,875,558. The \$3,394 net difference as of June 30, 2025, 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.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 2 – Cash and Investments (Continued)

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. 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 and CLASS).

As of June 30, 2025 the District had approximately \$1,625,558 on deposits in excess of FDIC-insured limits.

Investments

Investments as of June 30, 2025, consisted of the following:

Investments	Fair Value Measurement Input	Credit Rating	Fair Value June 30, 2025	Maturity 12 Months or Less
External Investment Pools:				
California Local Agency Investment Fund (LAIF)	Level 2	n/a	\$ 1,864,455	\$ 1,864,455
California Cooperative Liquid Assets Securities System (CLASS)	Level 2	AAAm	7,858,164	7,858,164
Held with Fiscal Agent:				
PARS Pension Trusts	Level 2	n/a	110,437	110,437
Total Investments			<u>\$ 9,833,056</u>	<u>\$ 9,833,056</u>

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2025

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)
California Cooperative Liquid Assets Securities System (CLASS)
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, 2025 included a portion of the pool funds invested in structured notes and asset-backed securities in which their terms may cause their fair values to be highly sensitive to interest. As of June 30, 2025 the value of LAIF's portfolio approximated \$24.490 billion. LAIF had invested 2.02% of the pool's investment funds in structured notes and medium-term asset-backed securities at June 30, 2025.

Investment in California Cooperative Liquid Assets Securities System (CLASS)

The District is a voluntary participant in CLASS which is a joint exercise of powers entity authorized under Section 6509.7, California Government Code. California CLASS is a pooled investment option that was created via a joint exercise of powers agreement by and among California public agencies. 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 CLASS for the entire CLASS portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by CLASS, which are recorded on an amortized cost basis. Further information about CLASS is available on their website: <https://californiaclass.com/prime/>

The District's investment with CLASS at June 30, 2025 included a portion of the pool funds invested in various money market securities, including U.S. Treasury securities, U.S. agencies, state municipal obligations, bankers' acceptances, commercial paper, certificates of deposit, and repurchase.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2025

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 and Miscellaneous Employees' Pension Plans. 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.

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, 2025 the District's investment credit ratings are 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. All the District's classes of investments in any one governmental or non-governmental issuer are in excess of 5% percent of the District's total investments.

Note 3 – Lease Receivable

In April 2002, the District entered into a 5-year cell tower lease with T-Mobile with an option to renew every five years for 25 more years. The initial lease payment was \$12,000 per year. The annual lease payment is adjusted annually by an amount not to exceed the rate of inflation as indicated by the change in Consumer Price Index (CPI) or 3%, whichever is greater.

In June 2005, the District entered into a 5-year cell tower lease with AT&T with an option to renew every five years for 20 more years. The initial lease payment was \$26,400 per year. The annual lease payment is adjusted annually by an amount not to exceed the rate of inflation as indicated by the change in Consumer Price Index (CPI) or 3%, whichever is greater.

In February 2013, the District entered into a 5-year cell tower lease with AT&T with an option to renew every five years for 20 more years. The initial lease payment was \$60,000 per year. The annual lease payment is adjusted annually by 3%.

The District recorded the lease receivable as of July 1, 2020 measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 2.0%.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 3 – Lease Receivable (Continued)

During the year ended June 30, 2025 the District recognized lease revenue related to the above leases of \$119,131. Interest revenue for the year ended June 30, 2025 was \$15,901.

The future minimum lease payments receivable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	120,649	15,901	136,550
2027	126,866	13,832	140,698
2028	139,030	11,649	150,679
2029	134,317	9,349	143,666
2030	141,097	6,925	148,022
2031-2035	230,308	9,936	240,244
2036-2038	73,755	1,154	74,909
	<u>\$ 966,022</u>	<u>\$ 68,746</u>	<u>1,034,768</u>
Less: Present value discount			94,947
Total Lease Receivable			<u><u>\$ 939,821</u></u>

Note 4 – Capital Assets

Changes in capital assets for the year ended June 30, 2025 were as follows:

	<u>Balance July 1, 2024</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance June 30, 2025</u>
Non-depreciable capital assets:					
Land	\$ 174,626	\$ -	\$ -	\$ -	\$ 174,626
Construction-in-process	216,738	991,624	(777,911)	-	430,451
Total non-depreciable capital assets	<u>391,364</u>	<u>991,624</u>	<u>(777,911)</u>	<u>-</u>	<u>605,077</u>
Depreciable capital assets:					
Source of supply plant	16,883,216	-	147,460	(77,989)	16,952,687
Pumping plant	482,504	-	28,315	-	510,819
Transmission and distribution plant	30,448,304	12,576	106,835	-	30,567,715
Buildings and structures	2,562,040	-	-	-	2,562,040
Office equipment	454,520	-	35,014	(60,001)	429,533
Transportation/heavy equipment	2,098,545	-	460,287	-	2,558,832
Radio and communication equipment	148,616	-	-	-	148,616
Field equipment and tolls	767,019	-	-	-	767,019
Lease asset	6,722	-	-	(6,722)	-
Total depreciable capital assets	<u>53,851,486</u>	<u>12,576</u>	<u>777,911</u>	<u>(144,712)</u>	<u>54,497,261</u>
Less accumulated depreciation	<u>(33,327,315)</u>	<u>(1,412,183)</u>	<u>-</u>	<u>140,725</u>	<u>(34,598,773)</u>
Total depreciable capital assets, net	<u>20,524,171</u>	<u>(1,399,607)</u>	<u>777,911</u>	<u>(3,987)</u>	<u>19,898,488</u>
Total capital assets, net	<u><u>\$ 20,915,535</u></u>	<u><u>\$ (407,983)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (3,987)</u></u>	<u><u>\$ 20,503,565</u></u>

Construction in progress consist of several capital projects in which the District has expended \$430,451 as of June 30, 2025. The District estimates that the projects will be completed in the fiscal year 2026 and will need to expend an additional \$2.43 million to bring the projects to completion.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 5 – Schedule of Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2025, are as follows:

	Balance at July 1, 2024	Increases	Decreases	Balance at June 30, 2025	Due Within One Year
Note from direct borrowings	\$ 1,016,797	\$ -	\$ (214,332)	\$ 802,465	\$ 220,919
Compensated absences	174,344	111,242	-	285,586	127,891
Net OPEB liability	197,192	44,052	-	241,244	-
Net pension liability	3,618,667	-	(32,250)	3,586,417	-
	<u>\$ 5,007,000</u>	<u>\$ 155,294</u>	<u>\$ (246,582)</u>	<u>\$ 4,915,712</u>	<u>\$ 348,810</u>

In 2019, the District entered into an agreement to finance the purchase of water meters. The District's note from original direct borrowings of \$2,000,000 is secured by collateral of the water meters purchased under the agreement. Variable payments are due semi-annually, including interest at 3.05% per annum, with the final payment due October 2028. The note contains a provision that in an event of default, the equipment purchased under agreement may be repossessed by the lender.

Debt service requirements on long-term debt at June 30, 2025, are as follows:

Year Ending June 30,	Principal	Interest	Total
2026	\$ 220,919	\$ 22,817	\$ 243,736
2027	227,709	16,028	243,737
2028	234,708	9,029	243,737
2029	119,129	1,817	120,946
	<u>\$ 802,465</u>	<u>\$ 49,691</u>	<u>\$ 852,156</u>

Note 6 – 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 is 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, 2025 the following employees were covered by the benefit terms:

Active plan members	24
Inactive plan members or beneficiaries currently receiving benefit payments	2
Inactive plan members entitled to but not yet receiving benefit payments	-
Total Participants	<u>26</u>

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 6 – Net Other Post-Employment Benefits Obligation

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, 2025, the District's average contribution rate was 27.22% of covered-employee payroll. Employees are not required to contribute to the plan.

Actuarial Method and Assumptions

Valuation and Measurement Date: The valuation date is June 30, 2023, and the measurement date is June 30, 2024.

Actuarial Cost Method: GASB 74 and 75 require use of the entry age actuarial cost method. Entry age is based on the age at hire for eligible employees. The attribution period is determined as the difference between the expected retirement age and the age at hire. The actuarial present value of projected benefit payments and present value of future service costs are determined on a participant by participant basis and then aggregated.

Substantive Plan: As required under GASB 74 and 75, the valuation is based on the substantive plan. The formulation of the substantive plan was based on a review of written plan documents as well as historical information provided by the District regarding practices with respect to employer and employee contributions and other relevant factors.

Inflation: Assumed 2.50% per year.

Investment Return/Discount Rate: Assumed 5.25% per year net of expenses. 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 for the year ended June 30, 2025 is summarized in the following table:

Asset Class	Target Allocation	Long-Term Rate of Return
Inflation Assets	9.0%	N/A
Fixed Income	51.0%	N/A
Global Equities	23.0%	N/A
REITs	14.0%	N/A
Commodities	3.0%	N/A
Total	100.0%	5.75%

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 6 – Net Other Post-Employment Benefits Obligation (Continued)

Actuarial Method and Assumptions

Trend: Assumed 4.00% per year. The long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation.

Payroll Increase: Assumed 2.75% per year. Since benefits do not depend on salary (as they do for pensions), this assumption is only used to determine the accrual pattern of the Actuarial Present Value of Projected Benefit Payments.

Mortality Assumptions: Mortality assumptions are based upon the 2021 California Public Employees Retirement System (CalPERS) Mortality for Active Miscellaneous Employees Table and the 2021 CalPERS Mortality for Retired Miscellaneous Employees Table. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. These tables incorporate mortality projection as deemed appropriate based on CalPERS analysis.

Retirement Rates: Retirement Rates are based upon the 2021 CalPERS 3.0%@60 Rates Active Miscellaneous Employees Table and the 2021 CalPERS 2.0%@62 Rates Retired Miscellaneous Employees Table. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Turnover Rates: Turnover Rates are based upon the 2021 CalPERS Turnover for Miscellaneous Employees Table. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 6 – Net Other Post-Employment Benefits Obligation (Continued)

Changes in the Net OPEB Liability

Changes in net OPEB liability for the year ended June 30, 2025 were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	NET OPEB Liability/(Asset) (a) - (b)
Balance at June 30, 2024	<u>\$ 916,522</u>	<u>\$ 719,330</u>	<u>\$ 197,192</u>
Changes for the year:			
Service cost	74,088	-	74,088
Interest	47,339	45,302	2,037
Change in assumptions	(18,726)	-	(18,726)
Experience (gains) losses	-	-	-
Contributions - employer	-	19,085	(19,085)
Expected minus actual benefit payments	5,508	-	5,508
Benefit payments	(19,085)	(19,085)	-
Administrative expense	-	(230)	230
Net changes	<u>89,124</u>	<u>45,072</u>	<u>44,052</u>
Balance at June 30, 2025	<u><u>\$ 1,005,646</u></u>	<u><u>\$ 764,402</u></u>	<u><u>\$ 241,244</u></u>

Sensitivity of the net OPEB liability

Sensitivity of the net OPEB liability to changes in the discount rate: 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 (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net OPEB liability	\$ 314,181	\$ 241,244	\$ 177,828

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 (3.00%)	Current Trend Rate (4.00%)	1% Increase (5.00%)
Net OPEB liability	\$ 139,276	\$ 241,244	\$ 361,676

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 6 – Net Other Post-Employment Benefits Obligation (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, 2025 the District recognized OPEB expense of \$63,808. At June 30, 2025 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	\$ 49,056	\$ (131,504)
Differences between expected and actual experience	55,556	(335,615)
Net difference between projected and actual earnings on OPEB plan investments	49,721	-
Employer contributions made subsequent to the measurement date	38,230	-
Total	<u>\$ 192,563</u>	<u>\$ (467,119)</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the following year. 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
2026	\$ (18,172)
2027	(7,601)
2028	(34,211)
2029	(39,060)
2030	(40,714)
Thereafter	(173,028)
Total	<u>\$ (312,786)</u>

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 7 – 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	
	Classic Tier 1	PEPRA Tier 2
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	3.0% at 60	2.0% at 62
Benefit vesting schedule	5 years of service	5 years of service
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 3.0%	1.0% to 2.5%
Required member contribution rates	8.00%	7.75%
Required employer contribution rates	16.51%	7.87%

Plan Description

The District contributes to the Public Employees' Retirement Fund C (PERF C), a cost-sharing multiple employer defined benefit pension plan of public agencies with generally fewer than 100 active members, which is administered by California Public Employees' Retirement System (CalPERS). 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, 2023 Annual Actuarial Valuation Reports. These reports and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

Members Covered by Benefit Terms

At June 30, 2023 (Valuation Date), the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		Total
	Classic Tier 1	PEPRA Tier 2	
Active Members	9	13	22
Transferred and terminated members	17	13	30
Retired members and beneficiaries	25	-	25
Total Plan Members	51	26	77

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 7 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

General Information about the Pension Plans (Continued)

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 50 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 52 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.

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.

The basic death benefit is a lump sum in the amount of the members' accumulated contributions, where interest is currently credited annually at the greater of 6 percent or the prevailing discount rate through the date of death, 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%.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 7 – 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

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, 2024 (Measurement Date), the active member contribution rate for the Classic Miscellaneous Plan and the PEPRA Miscellaneous Plan are based on the Plan's description schedule above. For the year ended June 30, 2025, the contributions made to the Plan were as follows:

Contribution Type	Miscellaneous Plans		
	Classic Tier 1	PEPRA Tier 2	Total
Contributions – employer	\$ 424,734	\$ 80,774	\$ 505,508
Contributions – members	70,741	72,524	143,265
Total Contributions	\$ 495,475	\$ 153,298	\$ 648,773

Actuarial Methods and Assumptions Used to Determine the Total Pension Liability

For the measurement periods ended June 30, 2024 (Measurement Date), the total pension liability was determined by rolling forward the June 30, 2023 total pension liabilities. The June 30, 2023 total pension liabilities were 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:	
Investment rate of return	6.90%
Inflation	2.30% per annum
Salary Increases	Varies by entry age and service
Mortality Rate ¹	Derived using CalPERS' Membership Data for all Funds
Post-Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

¹ The mortality table was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP 2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study report that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2023 was based on CalPERS experience study and review of actuarial assumptions from November 2021. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 7 – 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)

Long-Term Expected Rate of Return

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return.

The table below reflects expected real rate of return by asset class as of June 30, 2024 (Measurement Date):

Investment Type	Assumed Asset Allocation	Real Return Years ^{1,2}
Global Equity - Cap Weighted	30.00%	4.54%
Global Equity Non-Cap Weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
	<u>100.00%</u>	

¹ An expected price inflation of 2.30% is used for this period.

² Figures are based on the 2021-22 Asset Liability Management study.

Discount Rate

The discount rate used to measure the total pension liability for PERF C was 6.90% as of June 30, 2025. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 7 – 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 following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date 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 as of June 30, 2025:

Plan Type	Discount Rate - 1% 5.90%	Current Discount Rate 6.90%	Discount Rate + 1% 7.90%
CalPERS – Miscellaneous Plan	\$ 5,707,416	\$ 3,586,417	\$ 1,840,523

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 periods for the CalPERS Miscellaneous as of June 30, 2025 was as follows:

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
CalPERS – Miscellaneous Plan			
Balance as of June 30, 2023 (Measurement Date)	\$ 14,696,189	\$ 11,077,522	\$ 3,618,667
Balance as of June 30, 2024 (Measurement Date)	15,718,043	12,131,626	3,586,417
Change in Plan Net Pension Liability	<u>\$ 1,021,854</u>	<u>\$ 1,054,104</u>	<u>\$ (32,250)</u>

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 7 – 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

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. The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation dates.
2. Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date. 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 the valuation date less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period.
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

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 7 – 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 District's proportionate share of the net pension liability as of June 30, 2025 was as follows:

CalPERS – Miscellaneous Plan	Percentage Share of Risk Pool
Measurement Date	June 30, 2024
Percentage of Risk Pool Net Pension liability	0.072370%
Percentage of Plan (PERF C) Net Pension Liability	0.001780%

For the year ended June 30, 2025, the District recognized pension expense in the amount of \$797,161 for the CalPERS Miscellaneous Plan.

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.

The EARSL for PERF C for the measurement periods ending June 30, 2024 is 3.8 years, which was obtained by dividing the total service years (the sum of remaining service lifetimes of the active employees) by the total number of participants (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, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Account Description	Miscellaneous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made after the measurement date	\$ 493,666	\$ -
Difference between actual and proportionate share of employer contributions	-	(83,220)
Adjustment due to difference in proportions	91,113	-
Differences between expected and actual experience	310,079	(12,099)
Differences between projected and actual earnings on pension plan investments	206,466	-
Changes in assumptions	92,178	-
Total Deferred Outflows/(Inflows) of Resources	\$ 1,193,502	\$ (95,319)

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 7 – 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)

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the following year. 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:

<u>Fiscal Year Ending June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2026	\$ 222,066
2027	453,096
2028	108
2029	(70,753)
2030	-
Total	<u><u>\$ 604,517</u></u>

Note 8 – 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, 2025, there was no claims liabilities to be reported. During the year ended June 30, 2025, the District participated in the following public entity risk pool Association of California Water Agencies Joint Powers Insurance Authority (See Note 9)

At June 30, 2025 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 \$10,000,000 and has purchased excess insurance coverage up to \$150,000,000. For general liability, the JPIA self-insured pool covers the first \$5,000,000 per occurrence, and excess insurance coverage has been purchased with aggregated policy limits up to \$55,000,000.

Worker's compensation insurance coverage consists of statutory limits per occurrence for workers compensation and to total of \$2,000,000 per occurrence. JPIA is self-insured up to \$2,000,000, and excess insurance coverage has been purchased.

Cyber security insurance up to \$2,000,000 per occurrence, with an aggregate policy limit of \$5,000,000 with deductibles starting from \$10,000. Employee dishonesty and crime insurance provides coverage of up to \$100,000 per occurrence, subject to a \$1,000 deductible, for losses arising from employee dishonesty, forgery or alteration, and computer fraud. Coverage applies to all employees, the Board of Directors, and the Treasurer.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 9 – Joint Powers Agreements

The District participates in a Joint Powers Agreements (JPA): The Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) and the California Cooperative Liquid Assets Securities System (CLASS). The relationship between the Agency and the JPAs is such that the JPAs are not a component unit of the Agency for financial reporting purposes.

Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA)

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.

Condensed audited financial information of the ACWA/JPIA for the year ended September 30, 2024 is as follows:

Total assets	\$ 308,144,466
Deferred outflows of resources	3,099,110
Total liabilities	177,706,110
Deferred inflows of resources	4,357,741
Net position	<u>\$ 129,179,725</u>
Total revenues	\$ 222,223,993
Total expenses	253,429,117
Total other income (loss)	39,671,937
Change in net position	<u>\$ 8,466,813</u>

California Cooperative Liquid Assets Securities System (CLASS)

The California Cooperative Liquid Assets Securities System (CLASS) is a joint exercise of powers entity authorized under Section 6509.7, California Government Code. CLASS is a pooled investment option that was created via a joint exercise of powers agreement by and among California public agencies. CLASS provides California public agencies with a convenient method for investing in high-quality, short- to medium-term securities carefully selected to optimize interest earnings while prioritizing safety and liquidity. The CLASS Prime and Enhanced Cash funds offer public agencies the opportunity to strengthen and diversify their cash management programs in accordance with the safety, liquidity, and yield hierarchy that governs the investment of public funds.

TWENTYNINE PALMS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

Note 9 – Joint Powers Agreements (Continued)

CLASS strives to minimize risk by managing its portfolios in a manner that prioritizes principal preservation and only invests in securities that are permitted pursuant to the laws of the state of California and the CLASS Investment Policies. The condensed audited financial information of the CLASS for the year ended March 31, 2025 is as follows:

Total assets	\$ 1,800,404,676
Total liabilities	185,885
Net assets	<u>\$ 1,800,218,791</u>
Total revenues	\$ 80,902,067
Total expenses	<u>1,700,539</u>
Change in net asset	<u>\$ 79,201,528</u>

Note 10 – 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 will not be significant.

Note 11 – Subsequent Events

Management has evaluated subsequent events through December 31, 2025, the date the financial statements were available to be 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 AND RELATED RATIOS

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17*	2015-16*
Measurement Date	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Employer's Proportion of the Net Pension Liability	0.07415%	0.07237%	0.0703%	0.024400%	0.024867%	0.024098%	0.023256%	0.023165%	0.025285%	0.028234%
Employer's Proportionate Share of the Collective Net Pension Liability	\$ 3,586,417	\$ 3,618,667	\$ 3,291,198	\$ 1,319,608	\$ 2,705,642	\$ 2,469,343	\$ 2,241,022	\$ 2,297,360	\$ 2,187,905	\$ 1,937,958
Employer's Covered Payroll	\$ 1,813,392	\$ 1,641,225	\$ 1,460,895	\$ 1,474,855	\$ 1,448,972	\$ 1,346,297	\$ 1,084,161	\$ 1,051,407	\$ 1,381,292	\$ 1,341,060
Employer's Proportionate Share of the Collective Net Pension Liability as a Percentage of Covered Payroll	197.77%	220.49%	225.29%	89.47%	186.73%	183.42%	206.71%	218.50%	158.40%	144.51%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	79.91%	78.00%	78.19%	90.49%	77.71%	77.73%	77.69%	75.39%	74.06%	78.40%

* Includes safety plan

California Public Employees' Retirement System (CalPERS) Safety Plan**

Fiscal Year	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
Measurement Date	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Employer's Proportion of the Net Pension Liability	-	-	0.010214%	0.000226%	0.004661%	0.003910%	0.003341%	0.003236%
Employer's Proportionate Share of the Net Pension Liability	\$ -	\$ -	\$ 701,869	\$ 12,233	\$ 507,129	\$ 400,701	\$ 321,995	\$ 320,883
Employer's Covered Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	-	-	-	-	-	-	-	-
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	-	-	75.53%	86.61%	73.12%	73.37%	73.39%	71.74%

** Safety Plan was terminated during fiscal year 2023-24

TWENTYNINE PALMS WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS TO THE PENSION PLAN
Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17*	2015-16*
Actuarially Determined Contribution	\$ 493,666	\$ 425,102	\$ 409,195	\$ 383,898	\$ 357,929	\$ 316,780	\$ 264,804	\$ 214,598	\$ 197,902	\$ 245,003
Contribution in Relation to the Actuarially Determined Contribution	(493,666)	(425,102)	(409,195)	(383,898)	(357,929)	(316,780)	(264,804)	(214,598)	(197,902)	(682,065)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (437,062)
Covered Payroll	\$ 1,813,392	\$ 1,641,225	\$ 1,460,895	\$ 1,474,855	\$ 1,448,972	\$ 1,346,297	\$ 1,264,383	\$ 1,084,161	\$ 1,051,407	\$ 1,381,292
Contributions as a Percentage of Covered Payroll	27.22%	25.90%	28.01%	26.03%	24.70%	23.53%	20.94%	19.79%	18.82%	49.38%

* Includes safety plan

California Public Employees' Retirement System (CalPERS) Safety Plan**

Fiscal Year	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
Actuarially Determined Contribution	\$ -	\$ -	\$ 56,889	\$ 38,460	\$ 26,711	\$ 17,414	\$ 7,668	\$ 2,064
Contribution in Relation to the Actuarially Determined Contribution	-	-	(56,889)	(38,460)	(26,711)	(17,414)	(7,668)	(2,064)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a Percentage of Covered Payroll	-	-	-	-	-	-	-	-

¹ 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.

² Covered Payroll represented above is based on payroll on which contributions to a pension plan are based per GASBS No. 82.

** Safety Plan was terminated during fiscal year 2023-24

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
Last Ten Fiscal Years ⁽¹⁾


Fiscal Year	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
Measurement Period	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17
Changes in total OPEB liability:								
Service cost	\$ 74,088	\$ 61,489	\$ 59,843	\$ 51,018	\$ 50,524	\$ 37,021	\$ 39,339	\$ 60,309
Interest	47,339	47,262	54,139	70,082	64,684	53,159	49,121	31,862
Difference between expected and actual experience	-	29,009	(79,276)	(382,546)	(17,960)	65,215	-	-
Expected Minus Actual Benefit Payments	5,508							
Changes of benefit terms	-	-	-	-	-	-	-	(187,021)
Changes in assumptions	(18,726)	(116,922)	63,771	(5,650)	-	(29,981)	(22,970)	-
Benefit payments including refunds*	(19,085)	(37,625)	(15,092)	-	(15,317)	(39,679)	(46,508)	(64,899)
Net changes	89,124	(16,787)	83,385	(267,096)	81,931	85,735	18,982	(159,749)
Total OPEB liability (beginning)	916,522	933,309	849,924	1,117,020	1,035,089	949,354	930,372	1,090,121
Total OPEB liability (ending)	<u>\$ 1,005,646</u>	<u>\$ 916,522</u>	<u>\$ 933,309</u>	<u>\$ 849,924</u>	<u>\$ 1,117,020</u>	<u>\$ 1,035,089</u>	<u>\$ 949,354</u>	<u>\$ 930,372</u>
Changes in plan fiduciary net position:								
Contributions – employer*	\$ (19,085)	\$ (37,625)	\$ 15,092	\$ -	\$ 15,317	\$ 219,679	\$ 148,908	\$ 376,043
Contributions – employee	-	-	-	-	-	-	-	-
Net investment income	35,961	35,413	(85,415)	94,818	41,653	32,102	15,342	17,901
Benefit payments including refunds*	19,085	37,625	(15,092)	-	(15,317)	(39,679)	(46,508)	(64,899)
Administrative expense	(230)	(201)	(202)	(247)	(326)	(96)	(174)	(99)
Investment gains/(losses)	9,341	(24,248)						
Other expense	-	-	-	-	-	-	(435)	-
Net changes	45,072	10,964	(85,617)	94,571	41,327	212,006	117,133	328,946
Plan fiduciary net position (beginning)	719,330	708,366	793,983	699,412	658,085	446,079	328,946	-
Plan fiduciary net position (ending)	<u>\$ 764,402</u>	<u>\$ 719,330</u>	<u>\$ 708,366</u>	<u>\$ 793,983</u>	<u>\$ 699,412</u>	<u>\$ 658,085</u>	<u>\$ 446,079</u>	<u>\$ 328,946</u>
Net OPEB liability (ending)	\$ 241,244	\$ 197,192	\$ 224,943	\$ 55,941	\$ 417,608	\$ 377,004	\$ 503,275	\$ 601,426
Plan fiduciary net position as a percentage of the total OPEB liability	76%	78%	75.9%	93.4%	62.6%	63.6%	47.0%	35.4%
Covered employee payroll	1,813,392	1,641,225	\$ 1,736,546	\$ 1,504,856	\$ 1,710,995	\$ 1,464,438	\$ 1,100,000	\$ 1,100,000
Net OPEB liability as a percentage of covered payroll	13%	12%	13.0%	3.7%	24.4%	25.7%	45.8%	54.7%


* Includes implied subsidy benefit payments for the 12-month period.


(1) 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.



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**INDEPENDENT AUSITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Twentynine Palms Water District (District) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 31, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eadie and Payne, LLP

Riverside, California

December 31, 2025

Twentynine Palms Water District
SCHEDULE OF FINDINGS AND RESPONSES – PRIOR YEAR
For the year ended June 30, 2025

Significant Deficiency

2024-001 Segregation of Duties over Cash Disbursements

Criteria

According to best practices and applicable standards, including the COSO framework, organizations should implement effective internal controls to safeguard assets and ensure accurate financial reporting. Access to check stock should be restricted to authorized personnel only.

Condition

During the internal control walkthroughs, we noted that the General Manager has access to the blank checks stock and is also the authorized check signer. This creates a lack of segregation of duties over cash disbursements.

Cause

Insufficient internal controls has led to a situation where access to sensitive financial assets is not appropriately restricted. Additionally, there is no current policy or procedure in place specifically addressing the access rights to check stock.

Effect

The General Manager could write and sign checks without appropriate checks and balances. As a result, the District is at a higher risk of financial loss due to fraud or theft.

Recommendation

It is recommended that the District store blank checks in a locked location and assign control of the key or access code to a designated individual who does not have check-signing authority.

Management's Response

The District will store blank check stock in their walk-in vault and establish appropriate controls over the cabinet keys. The vault is always locked during non-business hours.

Status: Resolved