

TWENTYNINE PALMS WATER DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2007

Twentynine Palms Water District
Annual Financial Report
Year Ended June 30, 2007

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Twentynine Palms Water District, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities and each major fund of the Twentynine Palms Water District as of June 30, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2007, on our consideration of the District's internal control over financial reporting and on our tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



September 27, 2007

Management's Discussion and Analysis

As management of the Twentynine Palms Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information contained within this overview and analysis in conjunction with the financial statements and the related notes.

Financial Highlights

- The assets of the District exceeded its liabilities at June 30, 2007 by \$30,429,855 (*net assets*). . It is important to note that this amount represents assets (excluding capital assets) less liabilities. Accordingly, some assets are not available to meet the near-term financial requirements of the District. Of this amount, \$7,570,656 (*unrestricted net assets*) may be used to meet the ongoing obligations to citizens and creditors of the District in addition to paying for capital projects that have been approved by the Board of Directors and appropriated but are not complete.
- The District's total net assets increased by \$2,437,626. This increase was primarily attributable to increases in new service Connection Fees, Capital Grant Revenue, and an overall decrease in expenses for the year.
- As of June 30, 2007, the District's Governmental Fund (the Fire Department) reported Unrestricted Net Assets of \$1,274,192, an increase of \$237,077.
- The District's total debt decreased by \$464,420 or 10 percent during the fiscal year. The decrease was due to the payment of regularly scheduled debt installments. Total debt outstanding as of June 30, 2007 was \$4,153,236. All long-term debt is owed and paid by the Proprietary Fund (Water). The Governmental Fund (Fire) has no long-term debt.
- Total expenses of the Water Fund decreased \$227,819; or 6.4 percent, and total Fire Fund expenses (excluding capital) increased \$157,131 compared to the prior year.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The basic Proprietary Fund Financial Statements can be found on pages 7-10 of this report.

Notes to the financial statements. The notes provide additional information that is essential to fully understanding the data provided in the District-wide and Fund Financial Statements. The notes to the financial statements can be found on pages 12-24 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning the District's progress in funding its obligation to provide pension benefits to its employees. Also included within the Required Supplementary Information is a budgetary comparison statement for the Governmental Fund (Fire) to demonstrate its compliance with the adopted budget. Required Supplementary Information can be found on pages 25-27 of this report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Twentynine Palms Water District, assets exceeded liabilities by \$30,429,855 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets, \$22,432,122 or 74%, reflects its investment in capital assets (e.g., land, buildings, vehicles, wells, reservoirs, transmission mains, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Twentynine Palms Water District's Net Assets

	Governmental Activities - Fire		Business-type Activities - Water		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 1,411,514	\$ 1,119,310	\$ 7,661,419	\$ 6,813,768	\$ 9,072,933	\$ 7,933,078
Capital assets	<u>1,173,754</u>	<u>1,277,317</u>	<u>25,411,604</u>	<u>24,045,099</u>	<u>26,585,358</u>	<u>25,322,416</u>
Total assets	<u>\$ 2,585,268</u>	<u>\$ 2,396,627</u>	<u>\$ 33,073,023</u>	<u>\$ 30,858,867</u>	<u>\$ 35,658,291</u>	<u>\$ 33,255,494</u>
Long-term liabilities outstanding	\$ 0	\$ 0	\$ 3,670,987	\$ 4,153,314	\$ 3,670,987	\$ 4,153,314
Other liabilities	<u>137,322</u>	<u>82,195</u>	<u>1,420,127</u>	<u>1,027,756</u>	<u>1,557,449</u>	<u>1,109,951</u>
Total liabilities	<u>\$ 137,322</u>	<u>\$ 82,195</u>	<u>\$ 5,091,114</u>	<u>\$ 5,181,070</u>	<u>\$ 5,228,436</u>	<u>\$ 5,263,265</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 1,173,754	\$ 1,277,317	\$ 21,258,368	\$ 19,427,543	\$ 22,432,122	\$ 20,704,860
Restricted for Debt and Construction	0	0	427,077	0	427,077	0
Unrestricted	<u>1,274,192</u>	<u>1,037,115</u>	<u>6,296,464</u>	<u>6,250,254</u>	<u>7,570,656</u>	<u>7,287,369</u>
Total net assets	<u>\$ 2,447,946</u>	<u>\$ 2,314,432</u>	<u>\$ 27,981,909</u>	<u>\$ 25,677,797</u>	<u>\$ 30,429,855</u>	<u>\$ 27,992,229</u>

The unrestricted net assets, \$7,570,656, may be used to meet the District's ongoing obligations to citizens and creditors. The District's restricted net assets were \$427,077 as of June 30, 2007.

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

District-wide total net assets increased by \$2,437,626 during the current fiscal year. This change was the result of increases in unrestricted net assets of \$283,287; net assets invested in capital assets of \$1,727,262; and, an increase in restricted net assets of \$427,077.

Financial Analysis of Governmental and Business-type Activities.

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

Twentynine Palms Water District's Change in Net Assets

	Governmental Activities - Fire		Business-type Activities - Water		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Charges for service	\$ 15,598	\$ 3,763	\$ 3,136,608	\$ 3,193,136	\$ 3,152,206	\$ 3,196,899
Capital grants, Capital Impact Fees and Contributions	14,916	130,788	1,424,767	936,559	1,439,683	1,067,347
Special taxes	1,219,777	1,218,771	0	0	1,219,777	1,218,771
Assessments	0	0	625,544	660,280	625,544	660,280
Other	<u>91,334</u>	<u>122,116</u>	<u>445,674</u>	<u>419,375</u>	<u>537,008</u>	<u>541,491</u>
Total revenues	<u>\$ 1,341,625</u>	<u>\$ 1,475,438</u>	<u>\$ 5,632,593</u>	<u>\$ 5,209,350</u>	<u>\$ 6,974,218</u>	<u>\$ 6,684,788</u>
Expenses:						
Fire Protection (Including Depreciation and excluding Capital Outlay)	\$ 1,248,763	\$ 1,091,632	\$ 0	\$ 0	\$ 1,248,763	\$ 1,091,632
Water	0	0	3,166,405	3,327,068	3,166,405	3,327,068
Interest on Long-term Debt	<u>0</u>	<u>0</u>	<u>162,076</u>	<u>229,232</u>	<u>162,076</u>	<u>229,232</u>
Total expenses	<u>\$ 1,248,763</u>	<u>\$ 1,091,632</u>	<u>\$ 3,328,481</u>	<u>\$ 3,556,300</u>	<u>\$ 4,577,244</u>	<u>\$ 4,647,932</u>
Increase (Decrease) in net assets	92,862	383,806	2,304,112	1,653,050	2,396,974	2,036,856
Beginning Net assets as Restated	<u>2,355,084</u>	<u>1,930,626</u>	<u>25,677,797</u>	<u>24,024,747</u>	<u>28,032,881</u>	<u>25,955,373</u>
Ending Net assets	<u>\$ 2,447,946</u>	<u>\$ 2,314,432</u>	<u>\$ 27,981,909</u>	<u>\$ 25,677,797</u>	<u>\$ 30,429,855</u>	<u>\$ 27,992,229</u>

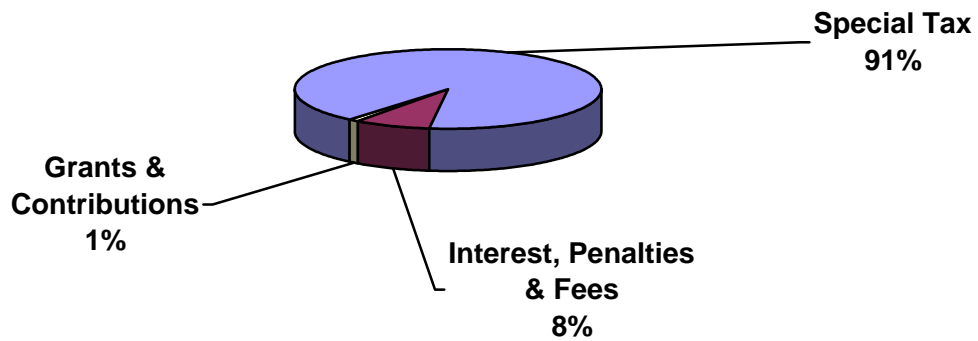
Governmental activities. Governmental activities include only the Fire Fund and the year's activity increased the fund's net assets by \$92,862 or 6.9 percent of total revenue for the year. This increase represents 4.8 percent of the beginning net assets of the fund.

Total revenue was \$1,341,625 for the year ended June 30, 2007 compared to \$1,475,438 in the prior year. This decrease of \$133,813 was primarily from reductions in capital grant revenue and penalties. \$1,219,777, or 91%, of the current year's total revenue was from the Fire Protection Special Tax. Investment Income, Penalties, Grants, Fees and Other Revenue contributed the remaining \$121,848.

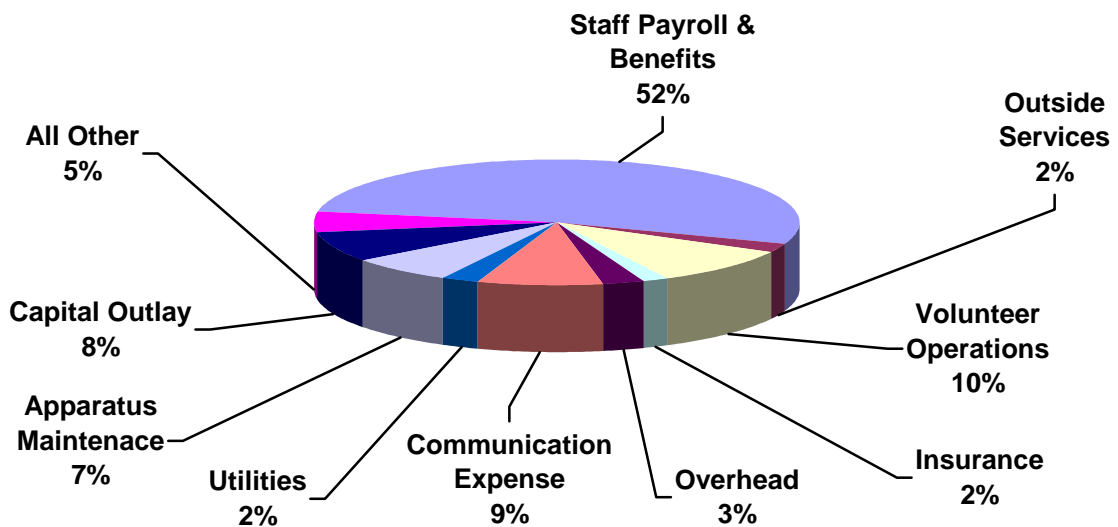
As indicated above, the vast majority of the Governmental Funds revenue comes from a Fire Protection Special Tax that was originally approved by the voters in 1997 and increased by the voters in 2005. This revenue source accounted for 91% of the Fire Departments total revenue for the year ended June 30, 2007.

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

Fire Department Revenue By Source



Fire Department Expenses By Category



Expenses (including capital) decreased by \$306,936 or 21 percent, compared to the prior year. The decrease in expenses reflects the significant reduction in capital assets purchased during the current fiscal year, partially offset by higher operating costs. Expenditures for capital assets decreased \$427,637 for the year while operating expenses increased by \$120,701 compared to the prior fiscal year.

Expenses totaled \$1,145,200 for the year, leaving an increase to fund balance of \$196,425. The combined cost of Staff Payroll, Benefits, and Volunteer Operations was \$717,614. The next highest expense was Communications - \$98,100; followed by Capital Outlay – \$86,623; and Apparatus Maintenance - \$81,123. The expenses listed above total \$983,460 or 86 percent of total expenses.

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

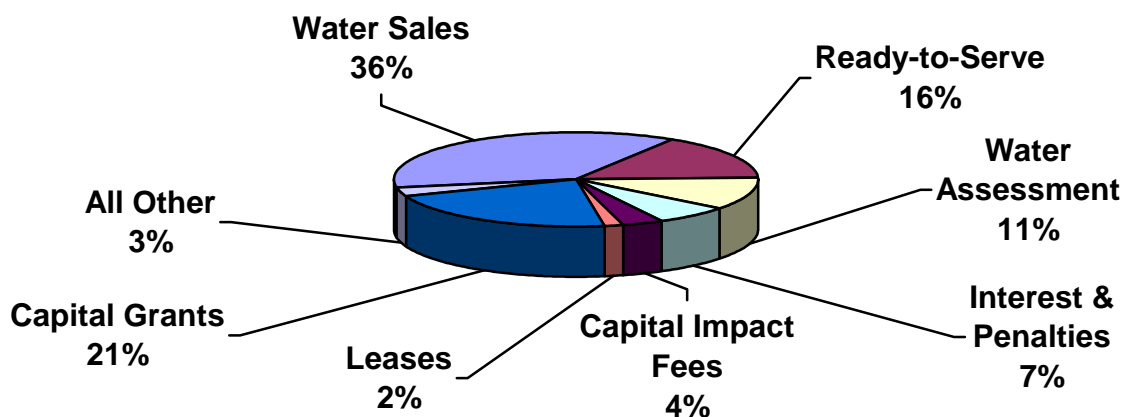
Business-type activities increased the Water Fund’s net assets by \$2,304,112 accounting for a 9 percent increase in the Enterprise Fund’s net assets. The increase was comprised of an increase in unrestricted net assets of \$46,210; an increase in net assets invested in capital assets of \$1,830,825; and an increase in restricted net assets of \$427,077.

Total Revenues of business-type activities increased by \$423,243 or 8 percent compared to the prior year. The increase was primarily the product of higher revenues from capital grants which increased \$664,248. The District continued experiencing new development during fiscal 2007 but at a slower rate. As a result of this slow down in growth, Capital Impact Fees decreased \$176,040 compared to the prior year and Meter Installation Fees decreased \$98,682. Interest Income and Penalties Increased \$45,545 while Water Sales and Ready-to-Serve charges had a combined increase of \$54,829 compared to the prior year. Offsetting these higher revenues for the year as a decrease in the Water Availability Assessment of \$34,736. The increase in Water Sales is attributed primarily to additional customers being served water in 2007.

Water Sales were \$2,060,509 for the year and represent 37 percent of total revenue. Other revenue sources included Ready-to-Serve Charges of 883,158; Water Availability Assessments – \$625,544; Investment Interest and Penalties - \$375,678; Capital Grant Revenue - \$1,224,512; Capital Impact Fees - \$200,255; and Property Leases - \$92,191. During the year ended June 30, 2007, there was a significant change in the sources of revenues. Grant revenue contributed 22 percent of total revenue in 2007 compared to 10 percent in 2006; whereas, Capital Impact Fees’ contribution to total revenue decreased from 7.2 percent in 2006 to 3.5 percent in 2007.

The chart below displays the significant revenue sources for the year ended June 30, 2007. The District’s largest revenue types are typically Water Sales and Ready-to-Serve charges which together represent 52 percent of the Water Fund’s total revenue for the year. Water Sales are based on the amount of water delivered to the customer. The rate currently being charged to customers has not changed since 1996. The Ready-to-Serve rates are based on capacity of the service and last changed in 2003 when the rates decreased 18 percent.

Water Fund Revenues By Source



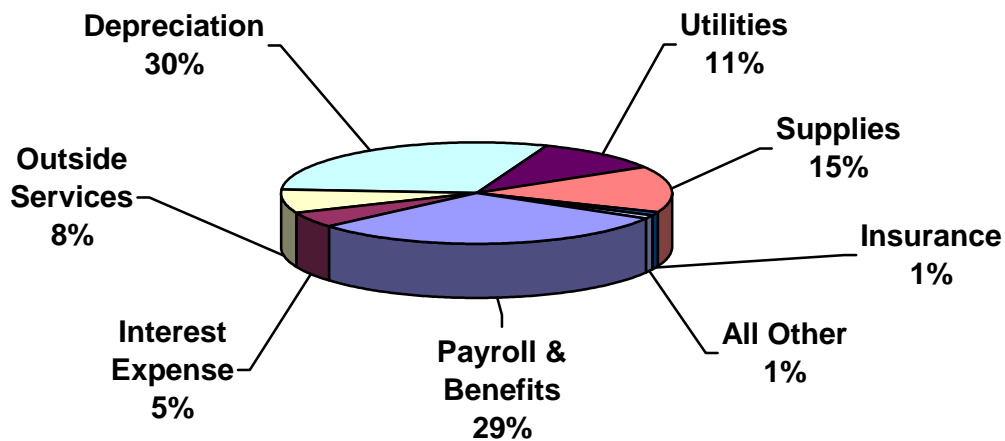
Total Business-type expenses decreased \$227,819 or 6 percent from the prior year.

The decrease in expenses was attributable to lower Depreciation Expense, Interest Expense, Insurance and Payroll. Utilities, Supplies and Outside Services increased compared to the prior year. Depreciation decreased \$182,316; Interest Expense \$67,156; Insurance \$69,610; and Payroll \$20,829. The decreases in Depreciation and Interest were attributable to the write-off of unamortized loan costs during 2006. This write-off was associated with a debt issue that was paid off in fiscal 2006. The increase in Supplies was from higher chemical usage as well as price increases for chemicals and other supplies. Utilities increased by \$67,360 due to rate increases and more customers being served in 2007 compared to 2006. Outside Services increased \$34,062.

As shown in the chart below, Payroll and Benefits represent 29 percent of total expenses while Depreciation accounts for 30 percent of expenses. The magnitude of these two expense categories demonstrates that the delivery of water to customers is a labor and capital intensive enterprise. Interest Expense was 5 percent of total expenses for the year and continues to be less significant as a percent of total expense.

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

Water Fund Expenses By Category



Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its combined governmental and business type activities totals \$26,585,358 (net of accumulated depreciation) as of June 30, 2007. This investment in capital assets includes land, buildings, vehicles, wells, reservoirs, transmission mains, machinery, vehicles, fire-fighting equipment and other equipment. The increase in the District's combined investment in capital assets for the current fiscal year was the result of depreciation for the year being less than the cost of new capital assets acquired during the year. The Water Fund's investment in capital assets increased by \$1,366,505 while the Fire Department decreased by \$103,563. The increase was primarily from construction in progress on a storage and distribution project that will add two new reservoirs and three pump stations to the District's existing water system.

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land, and improvements	\$ 57,519	\$ 57,519	\$ 299,930	\$ 299,930	\$ 357,449	\$ 357,449
Buildings and structures	707,828	707,828	755,421	755,421	1,463,249	1,463,249
Vehicles and heavy mobile equipment	1,224,718	1,224,718	829,810	807,910	2,054,528	2,032,628
Machinery and equipment	517,836	503,071	975,372	975,372	1,493,208	1,478,443
Infrastructure	0	0	32,875,944	32,836,068	32,875,944	32,836,068
Construction in progress	0	0	3,289,681	1,001,342	3,289,681	1,001,342
Accumulated depreciation	(1,334,147)	(1,215,819)	(13,614,554)	(12,630,944)	(14,948,701)	(13,846,763)
Total	\$ 1,173,754	\$ 1,277,317	\$ 25,411,604	\$ 24,045,099	\$ 26,585,358	\$ 25,322,416

Additional information on the District's capital assets can be found in note 4 on page 19 of this report.

Long-term debt. At the end of the current fiscal year, the Twentynine Palms Water District had total bonded debt outstanding of \$4,153,236, including the portion that is due within one year - \$482,249. All of the District's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds) of the Water Fund. All outstanding debt was incurred for the benefit of the Water Fund and accordingly is the sole responsibility of the Water Fund.

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue bonds - Total	\$ 0	\$ 0	\$ 4,153,236	\$ 4,617,656	\$ 4,153,236	\$ 4,617,656

The District's total debt decreased by \$464,420 or 10 percent during the current fiscal year. The decrease was the result of regularly scheduled principal payments made during the year.

Additional information on the District's long-term debt can be found in note 6 on pages 20-21 of this report.

Requests for Information

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

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Twentynine Palms Water District
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 16,578	\$ 492,033	\$ 508,611
Temporary Investments	1,274,038	5,118,881	6,392,919
Accounts Receivable:			
Water - Net		492,915	492,915
Assessments - Net	93,572	70,000	163,572
Grants	8,459	573,808	582,267
Other		12,922	12,922
Accrued Interest Receivable	16,408	74,309	90,717
Internal Balances	2,459	(2,459)	0
Material Inventory		116,541	116,541
Prepaid Expenses and Other		51,580	51,580
Deferred Charges		18,825	18,825
Restricted Assets:			
Cash		26,306	26,306
Temporary Investments		615,758	615,758
Capital Assets, Net	1,173,754	25,411,604	26,585,358
	<u>2,585,268</u>	<u>33,073,023</u>	<u>35,658,291</u>
Total Assets			
LIABILITIES			
Accounts Payable	84,376	20,410	104,786
Accrued Salaries and Compensated Absences	49,513	68,997	118,510
Other Current Liabilities	3,433	504,608	508,041
Deposits		272,471	272,471
Accrued Interest Payable		25,343	25,343
Liabilities Payable from Restricted Assets:			
Other Payables		22,534	22,534
Accrued Interest Payable		23,515	23,515
Long-term Debt Due within One Year		482,249	482,249
Long-term Debt		3,670,987	3,670,987
	<u>137,322</u>	<u>5,091,114</u>	<u>5,228,436</u>
Total Liabilities			
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,173,754	21,258,368	22,432,122
Restricted for Debt Service		159,815	159,815
Restricted for Construction		267,262	267,262
Unrestricted	1,274,192	6,296,464	7,570,656
	<u>2,447,946</u>	<u>27,981,909</u>	<u>30,429,855</u>
Total Net Assets			

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Activities
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Fire Protection	\$ 1,248,763	\$ 1,283,218	\$	\$ 7,851
Business-type Activities:				
Water Enterprise	3,166,405	3,962,407		1,224,512
Interest on Long-term Debt	162,076			
Total Primary Government	\$ 4,577,244	\$ 5,245,625	\$ 0	\$ 1,232,363

General Revenues:
Property Leases
Investment Income
Other

Total General Revenues and Transfers

Change in Net Assets

Total Net Assets - Beginning as previously stated

Prior Period Adjustment

Total Net Assets - Beginning, restated

Total Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ 42,306		\$ 42,306
	2,020,514	2,020,514
	(162,076)	(162,076)
\$ 42,306	\$ 1,858,438	\$ 1,900,744
	92,191	92,191
50,556	298,317	348,873
	55,166	55,166
50,556	445,674	496,230
92,862	2,304,112	2,396,974
2,314,432	25,677,797	27,992,229
40,652		40,652
2,355,084	25,677,797	28,032,881
\$ 2,447,946	\$ 27,981,909	\$ 30,429,855

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Balance Sheet
Governmental Fund
June 30, 2007

	<u>Fire Protection</u>
ASSETS	
Cash	\$ 16,578
Temporary Investments	1,274,038
Accounts Receivable:	
Assessments, Net of Allowance for Doubtful Accounts of \$236,508	93,572
Grants Receivable	8,459
Accrued Interest Receivable	16,408
Due from Other Funds	2,459
Total Assets	\$ 1,411,514
LIABILITIES AND FUND BALANCES	
Accounts Payable	\$ 84,376
Accrued Salaries and Compensated Absences	49,513
Other Current Liabilities	3,433
Total Liabilities	137,322
Fund Balance	
Unreserved:	
Undesignated	1,274,192
Total Liabilities and Fund Balances	\$ 1,411,514
Fund balance of governmental fund	\$ 1,274,192
Amounts reported for governmental activities in the statement of Net Assets are different because:	
Capital assets, net of depreciation, have not been included as financial resources in governmental activity:	1,173,754
Net assets of governmental activities	\$ 2,447,946

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Revenues, Expenditures and Changes in Fund Balance -
Governmental Fund
Year Ended June 30, 2007

	Fire Protection
REVENUES	
Fire Protection Special Tax	\$ 1,219,777
Investment Income	50,556
Fines, Penalties and Other	63,441
Grants	7,851
	1,341,625
Total Revenues	1,341,625
EXPENDITURES	
Staff Payroll and Benefits	604,812
Volunteer Payroll and Benefits	112,802
Facilities Maintenance and Supplies	11,386
Utilities	27,323
Outside Services	23,866
Miscellaneous	11,704
Insurance	17,470
Overhead	31,654
Safety	2,204
Training	13,784
Communications	98,100
Fire Prevention	2,161
Emergency Medical Services	6,006
Apparatus Maintenance	81,123
Uniforms	14,182
Capital Outlay	86,623
	1,145,200
Total Expenditures	1,145,200
Excess (Deficiency) of Revenues Over Expenditures	196,425
Fund Balances, Beginning - as previously stated	1,037,115
Prior Period Adjustment	40,652
	1,077,767
Fund Balance, Beginning - as restated	1,077,767
Fund Balances, Ending	\$ 1,274,192

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Fund to the Statement of Activities
Year Ended June 30, 2007

Net change in fund balances-total governmental funds	\$	196,425
--	----	---------

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

Governmental funds report capital outlay as an expenditure in the full amount as current financial resources are used. However, in the Statement of Activities the cost of these assets is allocated over the estimated useful life as depreciation expense.

		22,042
Capital Outlay		22,042
Depreciation		(125,605)
		(103,563)
Change in Net Assets of Governmental Activities	\$	92,862

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Net Assets
Proprietary Fund
June 30, 2007

ASSETS

Current Assets:

Cash	\$	492,033
Temporary Investments		5,118,881
Accounts Receivable:		
Water; Including Unbilled Amounts of \$756,915 Net of Allowance for Doubtful Accounts of \$264,000;		492,915
Assessments, Net of Allowance for Doubtful Accounts of \$208,645		70,000
Grants		573,808
Other		12,922
Accrued Interest Receivable		74,309
Material Inventory		116,541
Prepaid Expenses and Other		51,580
Total Current Assets		7,002,989

Noncurrent Assets

Restricted Cash		26,306
Restricted Temporary Investments		615,758
Capital Assets, Net of Depreciation		25,411,604
Deferred Charges		18,825
Total Noncurrent Assets		26,072,493

Total Assets	\$	33,075,482
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The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Net Assets
Proprietary Fund - Continued
June 30, 2007

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 20,410
Accrued Salaries and Compensated Absences	68,997
Other Current Liabilities	504,608
Due to Other Funds	2,459
Deposits	272,471
Accrued Interest Payable	25,343

Total Current Liabilities	894,288
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Liabilities Payable from Restricted Assets:

Other Payables	22,534
Accrued Interest Payable	23,515
Current Portion of Long-Term Debt	482,249

Total Liabilities Payable from Restricted Assets	528,298
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Long-term Debt	3,670,987
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Total Liabilities	5,093,573
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NET ASSETS

Investment in Capital Assets, Net of Related Debt	21,258,368
Restricted for Debt Service	159,815
Restricted for Construction	267,262
Unrestricted	6,296,464

Total Net Assets	\$ 27,981,909
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The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
Year Ended June 30, 2007

OPERATING REVENUES

Water Sales	\$ 2,060,510
Ready to Serve Charges	1,076,086
Other Charges	200,267
	3,336,863
Total Operating Revenues	3,336,863

OPERATING EXPENSES

Source of Supply	311,495
Pumping	88,180
Transmission and Distribution	215,306
Customer Accounts	97,354
General Plant	626,121
Engineering	46,841
General and Administrative	797,498
Depreciation and Amortization	983,610
	3,166,405
Total Operating Expenses	3,166,405

Operating Income (Loss)	170,458
-------------------------	---------

NON-OPERATING REVENUES (EXPENSES)

Water Availability Assessments	625,544
Investment Income	298,317
Property Leases	92,191
Grant Proceeds	1,224,512
Other	55,166
Interest on Long-Term Debt	(162,076)
	2,133,654

Total Non-Operating Revenues (Expenses)	2,133,654
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Change in Net Assets	2,304,112
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Total Net Assets, Beginning	25,677,797
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Total Net Assets, Ending	\$ 27,981,909
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The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 3,378,957
Cash Payments for Employee Services	(841,897)
Cash Payments to Suppliers for Goods and Services	(992,723)
	<u>1,544,337</u>
Net Cash Provided (Used) By Operating Activities	<u>1,544,337</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Water Availability Assessments	625,544
Property Leases	92,191
Other	55,166
	<u>772,901</u>
Net Cash Provided (Used) By Non-Capital Financing Activities	<u>772,901</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Loan Payments	(239,151)
Principal Payments - Certificates of Participation	(225,269)
Interest Paid	(168,057)
Acquisition, Construction or Improvement of Capital Assets	(2,350,115)
Grant Proceeds	807,949
	<u>(2,174,643)</u>
Net Cash (Used) By Capital and Related Financing Activities	<u>(2,174,643)</u>

CASH FLOWS FROM INVESTING ACTIVITIES - INTEREST RECEIVED

	<u>283,780</u>
Net (Decrease) in Cash and Cash Equivalents	426,375
Cash and Cash Equivalents - Beginning of Year	<u>5,826,603</u>
Cash and Cash Equivalents - End of Year	<u>\$ 6,252,978</u>

CASH AND CASH EQUIVALENTS - END OF YEAR INCLUDE:

Current Assets:	
Cash	\$ 492,033
Temporary Investments	5,118,881
Restricted Assets:	
Cash	26,306
Temporary Investments	615,758
	<u>6,252,978</u>
Totals	<u>\$ 6,252,978</u>

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Income	\$ 170,458
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	983,610
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	18,691
(Increase) Decrease in Due from Other Funds	222
(Increase) Decrease in Inventory and Prepaid Expenses	(10,076)
(Increase) Decrease in Deferred Charges	637
Increase (Decrease) in Accounts Payable and Accrued Expenses	351,669
Increase (Decrease) in Deposits	48,699
Increase (Decrease) in Due to Other Funds	350
Increase (Decrease) in Other Payable - Restricted	(19,923)
	<u>(19,923)</u>
Total Cash Provided By Operating Activities	<u>\$ 1,544,337</u>

The accompanying notes are an integral part of this statement.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
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8	Deferred Compensation Plan	23
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Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Twentynine Palms Water District (the "District") was formed in 1954 under the County Water District Law, Division 12 of the Water Code of the State of California, for the purpose of supplying potable water and for other statutory purposes, including fire protection. The District is governed by a five-member Board of Directors whose members are elected by the registered voters in the District to staggered four-year terms.

The Board of Directors and officers of the District at June 30, 2007 are as follows:

<u>NAME</u>	<u>BOARD MEMBER</u>	<u>OFFICER</u>	<u>TERM EXPIRES</u>
Edith E. Carter	Member	President	12/07/07
Philip C. Cisneros	Member	Vice President	12/02/09
Milford J. Yockey	Member	Director	12/02/09
Kerron E. Moore, Jr.	Member	Director	12/07/07
Alan R. Anthony	Member	Director	12/02/09
Mike Wright		General Manager, Board Secretary	
V. Wayne Jones		Contracted Finance Manager	

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

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of more significant policies:

Reporting Entity

The District and the Twentynine Palms Water District Financing Corporation (the "Corporation") have a financial and operational relationship which meets the reporting entity definition criteria of the Government Accounting Standard Board ("GASB") Statement No. 14, "The Financial Reporting Entity", for inclusion of the Corporation as component unit of the District. Accordingly, the financial activities of the Corporation have been included in the financial statements of the District.

The Corporation is governed by a five-member board appointed by the District board. Although it is legally separated from the District, the Corporation is reported as a blended component unit of the primary government because its sole purpose is to provide financing assistance to the District for construction and acquisition of major capital facilities.

Basis of Presentation

The basic financial statements of the Twentynine Palms Water District have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for governmental accounting and financial reporting purposes.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Basic of Presentation - Continued

These statements require that the financial statements described below be presented:

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

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the primary government are grouped, in the financial statements in this report, into two generic fund types and two broad fund categories as follows:

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The District has one type of Proprietary Fund, which is an Enterprise Fund. Enterprise Funds are used to account for operations where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The District maintains one Enterprise Fund, the Water Department, to account for the operations of the District's utility services. In accordance with GASB Statement No. 20, the District has elected to apply only those Financial Accounting Standard Board Statements and interpretations issued prior to November 30, 1989.

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

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

The District has one type of Governmental Fund, which is the Fire Protection Fund. The Fire Protection Fund is the operating fund of the Fire Department. It is used to account for all financial resources except those required to be accounted for in another fund. At the present time, the Fire Protection Fund is used to account for all financial resources of the Fire Department.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of short-term highly liquid investments with maturities of 90 days or less.

Inventories

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

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses/expenditures, as appropriate, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Property Tax

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

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

Under California law, property taxes and other charges (such as assessments) are assessed and collected by counties up to 1% of assessed value, plus other increases approved by voters. Property tax revenues are pooled and then allocated to cities based on complex formulas prescribed by state statutes.

Restricted Assets

Amounts shown as restricted assets have been restricted by either bond indenture, by law, or contractual obligations to be used for specified purposes, such as serving bonded debt and construction of capital assets

Current Liabilities (Payable from Restricted Assets)

Certain liabilities, including the current portion of long-term debt, have been classified as current liabilities (payable from restricted assets) because they will be funded from restricted assets.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Property and equipment in the Proprietary Funds of the District are recorded at cost, or if donated, at approximate value on the date contributed. Contributed assets are recorded at the developer's cost or at the value determined by the developer at the date of contribution. The District does not capitalize interest costs incurred on the construction of capital assets. Assets are depreciated using the straight-line method over their estimated useful lives as follows:

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

Allowance for Uncollectible Accounts

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

Unbilled Services

Unbilled water services are accrued at year-end.

Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the District's investments are stated at fair value except for interest-earning investment contracts.

Compensated Absences Liability

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

Sick leave with pay will be granted to each employee at the rate of (1) day per month, up to a maximum accumulation of 120 days. Accumulated sick leave will not be paid to employees upon termination of employment. In December of each year, as long as an employee has accrued in excess of 40 hours sick leave, he/she may choose to either be paid for any sick leave in excess of the 40 hours or leave it to accumulate. Employees who do not utilize unused sick leave accrued in excess of 40 hours between December 1st and November 30th each year, may be reimbursed at the rate of 100% if they have been employed during the entire period. This payment shall be included in the December payroll. In accordance with generally accepted accounting principles, the liability is reflected on the balance sheet and the current year allocation has been expensed.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

2) CASH AND TEMPORARY INVESTMENTS

Cash and Investments

Cash and Investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash	\$ 508,611
Temporary Investments	6,392,919
Restricted:	
Cash	26,306
Temporary Investments	<u>615,758</u>
 Total Cash and Investments	 <u>\$ 7,543,594</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on Hand	\$ 1,550
Deposits with Financial Institutions	533,367
Investments	<u>7,008,677</u>
 Total Cash and Investments	 <u>\$ 7,543,594</u>

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

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

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Investment Fund (LAIF)	N/A	None	None

Disclosures Relating to Interest Rate Risk

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

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

2) CASH AND TEMPORARY INVESTMENTS - Continued

Disclosures Relating to Interest Rate Risk - Continued

As of June 30, 2007, the District had the following investments. Except for the investment in money market funds, all investments are in the District's internal investment pool.

				<u>Maturity Date</u>
State Investment Pool (LAIF)	\$	7,008,677		N/A

Disclosures Relating to Credit Risk

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

			<u>Rating as of Year End</u>		
<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
State Investment Pool (LAIF)	\$ 7,008,677	N/A			7,008,677

Concentration of Credit Risk

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, \$467,421 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

2) CASH AND TEMPORARY INVESTMENTS - Continued

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Local Agency Investment Fund (LAIF)

The yield of LAIF for the quarter ended June 30, 2007 was 5.23%. The estimated amortized cost and fair value of the LAIF Pool at June 30, 2007 was \$65,786,597,418 and \$65,756,665,933, respectively. The District's share of the Pool at June 30, 2007 was approximately .010775 percent.

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. It is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Each district may invest up to \$40,000,000 in the Fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments in LAIF are secured by the full faith and credit of the State of California. The fair value of the District's investment in this Pool is reported in the accompanying financial statements based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$1,501,103,000. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

3) ASSESSMENTS

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

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

Special Assessment District Number 4, formed under the Procedural Act of 1913, has issued Special Assessment Bonds under the 1911 Act. For this type of bond issue, each bond is assigned to a particular property. In the event of delinquency of a particular assessment, the bond holder must start foreclosure procedures. The District's only responsibility is to collect assessment payments and forward to bond holders. Since, under California state law, the District is not liable for Special Assessment District Act defaults, the recognition of the liability for these Special Assessment District Bonds is not appropriate.

The District has included in these financial statements, as a restricted asset, the amount of monies which have been received (including reserve funds) and not yet expended for bond interest or principal redemption. The District has also recorded, as a current liability payable from restricted assets, the amount of monies which have been received (including reserve funds) and not yet expended for bond interest for principal redemption, as well as an amount for the bond principal and interest payable equal to that cash. As of June 30, 2007, this amount totaled \$22,534.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital Assets, Not Depreciated:				
Land and Improvements	\$ 299,930	\$	\$	\$ 299,930
Construction in Progress	<u>1,001,342</u>	<u>2,288,339</u>	<u></u>	<u>3,289,681</u>
Total Capital Assets Not Depreciated	<u>1,301,272</u>	<u>2,288,339</u>	<u>0</u>	<u>3,589,611</u>
Capital Assets, Being Depreciated:				
Source of Supply Plant	8,201,768	12,222		8,213,990
Pumping Plant	505,734			505,734
Transmission and Distribution Plant	24,128,566	27,654		24,156,220
Buildings	755,421			755,421
Office Equipment	500,561			500,561
Transportation/Heavy Equipment	807,910	21,900		829,810
Radio and Communication Equipment	160,762			160,762
Field Equipment and Tools	<u>314,049</u>	<u></u>	<u></u>	<u>314,049</u>
Total Capital Assets Being Depreciated	<u>35,374,771</u>	<u>61,776</u>	<u>0</u>	<u>35,436,547</u>
Less: Accumulated Depreciation	<u>(12,630,944)</u>	<u>(983,610)</u>	<u>0</u>	<u>(13,614,554)</u>
Total Capital Assets Being Depreciated, Net	<u>22,743,827</u>	<u>(921,834)</u>	<u>0</u>	<u>21,821,993</u>
Business-type Activities Capital Assets, Net of Depreciation	<u>\$ 24,045,099</u>	<u>1,366,505</u>	<u>0</u>	<u>\$ 25,411,604</u>
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land	\$ 57,519	\$	\$	\$ 57,519
Capital Assets Being Depreciated:				
Structures	707,828			707,828
Fire Trucks	1,224,718			1,224,718
Fire Equipment	407,869	13,633		421,502
Communication Equipment	48,943	5,910		54,853
Office Equipment	<u>46,259</u>	<u>2,499</u>	<u>(7,277)</u>	<u>41,481</u>
Total Capital Assets Being Depreciated	<u>2,435,617</u>	<u>22,042</u>	<u>(7,277)</u>	<u>2,450,382</u>
Less: Accumulated Depreciation	<u>(1,215,819)</u>	<u>(125,605)</u>	<u>7,277</u>	<u>(1,334,147)</u>
Total Capital Assets Being Depreciated, Net	<u>1,219,798</u>	<u>(103,563)</u>	<u>0</u>	<u>1,116,235</u>
Government Activities Capital Assets, Net of Depreciation	<u>\$ 1,277,317</u>	<u>\$ (103,563)</u>	<u>\$ 0</u>	<u>\$ 1,173,754</u>

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

Business-type Activities:	
Water	\$ 983,610
Governmental Activities:	
Fire Protection	\$ 125,605

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

5) DEFERRED CHARGES

As of June 30, 2007, the District has paid off twelve of the assessment bonds in the Special Assessment District Number 4 area on behalf of property owners who have expressed to the Board of Directors that payment of the amortized assessment would cause undue hardship. The District has in turn filed liens against those properties involved. Eventually, when the property is sold, the paid assessment plus interest at 5% will be repaid to the District. Bond deferments as of June 30, 2007 totaled \$18,825. Interest of \$24,023 has accrued on these Bond deferments but due to the uncertainty of collection, the District will account for this interest revenue when received.

2007

18,825

\$ 18,825

6) LONG-TERM DEBT

The following is a summary of changes in Business-type Long-Term Debt for the year:

	Issue Date	Interest Rate	Years of Maturity	Amount Authorized	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
WATER									
Certificates of Participation									
- 2002 Issue	10/09/02	4.27%	2002-2012	\$ 2,386,090	\$ 1,649,706	\$	\$ 225,269	\$ 1,424,437	\$ 234,991
State Department of Water Resources Loan	08/90	3.4375%	1997-2017	5,000,000	2,967,950		239,151	2,728,799	247,258
TOTAL					<u>\$ 4,617,656</u>	<u>\$ 0</u>	<u>\$ 464,420</u>	<u>\$ 4,153,236</u>	<u>\$ 482,249</u>

2002 Refunding Certificates of Participation

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

Although the advance refunding resulted in the recognition of an accounting loss of \$200,367 for the year ended June 30, 2003, the Agency in effect reduced its aggregate debt service payments by almost \$461,710 over the next 14 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$230,593.

State of California, Department of Water Resources Loan

The District contracted with the State of California, Department of Water Resources, for a loan under the Water Conservation and Water Quality Bond Law. Proceeds from the loan were used for the Phase I District Pipeline Replacement. As of June 30, 2007, the District had received \$4,872,379 of \$5,000,000 approved under the loan agreement. Interest is payable semiannually at 3.4375% per annum from the date loan drawdowns are received from the State. Semiannual principal payments are due on April 1 and October 1, commencing April, 1997, over a loan amortization period of 20 years.

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

6) LONG-TERM DEBT - Continued

State of California, Department of Water Resources Loan - Continued

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

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

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

Future debt maturities are as follows:

	2002 COPS		DWR Loan	
	Principal	Interest	Principal	Interest
2008	\$ 234,991	\$ 58,341	\$ 247,258	\$ 91,886
2009	245,132	48,200	256,190	82,955
2010	255,711	37,621	264,897	74,247
2011	266,745	26,586	274,081	65,063
2012	278,258	15,074	283,474	55,670
2013-2017	143,600	3,066	1,402,899	123,253
Total	\$ 1,424,437	\$ 188,888	\$ 2,728,799	\$ 493,074

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

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

Participants are required to contribute 7% of their annual covered salary. The Twentynine Palms Water District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate; the required employer contribution rate for fiscal year 2006/07 was 11.419% for miscellaneous employees, and 14.174% for safety employees, of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS.

Miscellaneous Plan

For 2007, the District's annual pension cost, for miscellaneous employees, of \$149,105 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2004, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, (c) 3.25% payroll growth compounded annually and (d) individual salary growth merit increases that vary by length of service. Included in (a), (b), (c) and (d) is an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value).

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

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

Miscellaneous Plan - Continued

PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. Beginning on July 1, 1997, all changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology will be amortized separately over a 20-year period. In additions, all gains or losses will be tracked and 10% of the net unamortized gain or loss will be amortized each year. Finally, if a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30 year amortization of the unfunded liability.

THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	\$ 100,349	100%	\$ 0
6/30/06	132,942	100%	0
6/30/07	149,105	100%	0

Safety Plan

For 2007, the District's annual pension cost, for safety employees, of \$76,760 for PERS was equal to the district's required and actual contributions. The required contribution was determined as part of the June 30, 2004, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 12% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, (c) 3.25% payroll growth compounded annually and (d) individual salary growth merit increases that vary by length of service. Included in (a), (b), (c) and (d) is an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value).

PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. Beginning on July 1, 1997, all changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology will be amortized separately over a 20-year period. In additions, all gains or losses will be tracked and 10% of the net unamortized gain or loss will be amortized each year. Finally, if a plan's accrued liability exceeds the actuarial value of assets, the annual contributions with respect to the total unfunded liability may not be less than the amount produced by a 30 year amortization of the unfunded liability.

THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	\$ 45,534	100%	\$ 0
6/30/06	69,782	100%	0
6/30/07	76,760	100%	0

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

8) DEFERRED COMPENSATION PLAN

On August 20, 1996, the provisions of Internal Revenue Code (IRC) Section 457 were amended to require new plans to place all assets and income of the Plan in trust for the exclusive benefit of participants and their beneficiaries. Plans in existence as of the date of this change must place the Plan assets and income in trust by January 1, 1999. Once the assets and income are placed in trust the district no longer owns the amounts deferred by employees and related income. Prior to this IRC Section 457 Amendment, the deferred amounts and related income remained as property of the district until withdrawn by the employee.

During the 1998-99 fiscal year, the Twentynine Palms Water District placed its Deferred Compensation Plan assets and related income in trust as allowed by IRC Section 457 and as a result the asset and corresponding liability are no longer presented in these financial Statements. This change had no impact on the District's Fund Equity.

9) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the District participated in the following public entity risk pools:

Association of California Water Agencies Joint Powers Insurance Authority

The District is a participant in the Association of California Water Agencies Joint Powers Insurance Authority ("JPIA"), which was organized for the purpose of providing liability insurance for the member agencies. The JPIA is a risk-pooling self-insurance authority created under the provisions of California Government Code Section 6500.

The JPIA is governed by a board consisting of a representative from each member agency. The board controls the operations of the JPIA, including selections of management and approval of operating budgets.

The purpose of the JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. At June 30, 2007, the District participation in the self-insurance programs of the JPIA was as follows:

Property loss is insured up to replacement value with deductibles ranging from \$1,000 to \$15,000 per occurrence: The JPIA is self-insured up to \$50,000 per occurrence and has purchased excess insurance coverage.

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

Association of California Water Agencies Joint Powers Insurance Authority - Continued

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

Special Districts' Workers' Compensation Authority

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

Twentynine Palms Water District
Notes to Financial Statements
Year Ended June 30, 2007

9) RISK MANAGEMENT - Continued

Special Districts' Workers' Compensation Authority

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

10) PRIOR PERIOD ADJUSTMENT

The Statement of Revenues, expenses and changes in Net Assets reflects a \$40,652 prior period adjustment. The adjustment is a 2003 expenditure from the Homeland Security Grant, which was received during fiscal year ended June 30, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

Twentynine Palms Water District
Notes to Required Supplementary Information
Year Ended June 30, 2007

1. BUDGETARY DATA

Annual budgets adopted by the Board of Directors provide for operations, debt service and capital expenditures of the District. On or before the second week in February, heads of all departments submit requests for appropriations to the Finance Manager, who compiles the requests and submits a comprehensive budget to the governing board. The board conducts public meetings on the proposed budget during the months of March through June. On or before June 30, the budget is adopted by the board. The appropriated budget is prepared by fund. Budgetary controls are set by the board. There were supplemental budgetary appropriations during the year ended June 30, 2007, in the amount of \$15,000 in the Fire Protection Fund.

Twentynine Palms Water District
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - Governmental Fund Type - Fire Protection
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Fire Protection Special Tax	\$ 1,214,000	\$ 1,214,000	\$ 1,219,777	\$ 5,777
Grants	0	7,851	7,851	
Investment Income	25,000	25,000	50,556	25,556
Fines, Penalties and Other	35,400	35,400	63,441	28,041
	<u>1,274,400</u>	<u>1,282,251</u>	<u>1,341,625</u>	<u>59,374</u>
EXPENDITURES				
Staff Payroll and Benefits	590,209	590,209	604,812	(14,603)
Volunteer Payroll and Benefits	106,100	106,100	112,802	(6,702)
Facilities Maintenance and Supplies	11,000	11,000	11,386	(386)
Utilities	28,800	28,800	27,323	1,477
Outside Services	21,000	21,000	23,866	(2,866)
Miscellaneous	14,700	14,700	11,704	2,996
Insurance	81,487	81,487	17,470	64,017
Overhead	34,672	34,672	31,654	3,018
Safety	3,250	3,250	2,204	1,046
Training	15,000	15,000	13,784	1,216
Communications	96,000	96,000	98,100	(2,100)
Fire Prevention	3,000	3,000	2,161	839
Emergency Medical Services	5,000	5,000	6,006	(1,006)
Apparatus Maintenance	67,000	67,000	81,123	(14,123)
Uniforms	13,400	13,400	14,182	(782)
Capital Outlay	78,400	93,400	86,623	6,777
	<u>1,169,018</u>	<u>1,184,018</u>	<u>1,145,200</u>	<u>38,818</u>
Excess of Revenues Over Expenditures	<u>\$ 105,382</u>	<u>\$ 98,233</u>	196,425	<u>\$ 98,192</u>
Fund Balance - Beginning of Year			1,037,115	
Period Period Adjustment			<u>40,652</u>	
Fund Balance, Beginning of Year - As Restated			1,077,767	
Fund Balance - End of Year			<u>\$ 1,274,192</u>	

Twentynine Palms Water District
Schedules of Funding Progress for PERS
Year Ended June 30, 2007

Miscellaneous Plan

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (A)	Actuarial Value of Assets (B)	Unfunded AAL (UAAL) (A - B)	Funded Ratio (B/A)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(A-B/C)]
6/30/02 Miscellaneous	\$ 2,392,467	\$ 2,619,846	\$ (227,379)	109.5%	\$ 816,770	(27.84%)
6/30/03 Miscellaneous	\$ 2,834,215	\$ 2,709,399	\$ 124,816	95.6%	\$ 755,146	16.5%
6/30/04 Miscellaneous	\$ 3,175,779	\$ 2,975,296	\$ 200,483	93.7%	\$ 10,291,152	1.9%

Safety Plan

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (A)	Actuarial Value of Assets (B)	Unfunded AAL (UAAL) (A - B)	Funded Ratio (B/A)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(A-B/C)]
6/30/02 Safety	\$ 664,356	\$ 746,519	\$ (82,163)	112.4%	\$ 232,586	(35.33%)
6/30/03 Safety	\$ 769,488	\$ 799,333	\$ (29,845)	103.9%	\$ 229,246	(13.0%)
6/30/04 Safety	\$ 885,615	\$ 903,175	\$ (17,560)	102.0%	\$ 435,455	(4.0%)