

**BORREGO WATER DISTRICT**  
**FINANCIAL STATEMENTS**  
**WITH REPORT ON AUDIT BY INDEPENDENT**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**JUNE 30, 2008**

JUNE 30, 2008

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December 8, 2008

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Borrego Water District  
Borrego, California

We have audited the accompanying basic financial statements of Borrego Water District as of and for the year ended June 30, 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Borrego Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Borrego Water District as of June 30, 2008, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State regulations governing Special Districts.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Borrego Water District. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fiscal year ended June 30, 2008

The following section of the annual financial report of the Borrego Water District (the District) includes an overview and analysis of the District's financial position and activities for the fiscal year ended June 30, 2008. This discussion and analysis, as well as the basic financial statements which it accompanies is the responsibility of the management of the District.

**FINANCIAL HIGHLIGHTS**

- The District engaged in-house engineering to offset consulting expense.
- The District's net assets increased from \$14,963,605 at June 30, 2007 to \$16,204,135 at June 30, 2008.
- The District purchased 40 acres of permanently fallowed citrus in order to achieve less water pumping in the Borrego basin as part of the District's Groundwater Management Plan.
- Income before capital contributions for the year decreased to \$3.25 million or 9.23% from the prior year, while total expenses decreased to 3.1 million or (3.92%).

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements accompanying the MD&A present the financial position, the results of operations, and cash flow using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities.

Statement of Net Assets

The Statement of Net Assets presents the District's financial position (assets and liabilities) as of June 30, 2008. Assets in excess of liabilities (Net Assets) were \$14,963,605 and \$16,204,135 as of June 30, 2007 and 2008, respectively. In accordance with generally accepted accounting principles (GAAP), capital assets are recorded at historical cost. Net assets are accumulated from revenues in excess of expenses, and contributed capital combined with the beginning balance of net assets as presented in the Statement of Revenues, Expenses and Changes in Net Assets.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the District's results of operations for the year ended June 30, 2008. In accordance with GAAP, revenues are recognized (recorded) when water or services are provided, and expenses are recognized when incurred. Operating revenues and expenses are related to the District's core activities (providing water, sewer, pest control and flood control services). Nonoperating revenues and expenses are not directly related to the core activities, e.g. investment income, interest expense, etc. The operating gain for the year ended June 30, 2008 of \$53,038 is combined with net nonoperating revenue of \$59,422 and capital contributions of \$1,128,070 to arrive at the increase in net assets of \$1,240,530. The increase in net assets is added to beginning net assets of \$14,963,605 to arrive at the ending net assets of \$16,204,135 as of June 30, 2008.

## BORREGO WATER DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

One of the most important questions asked about the District's finances was, "How has the District's position changed as the result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets present information about the District's activities that help answer this question. These two statements report the net assets of the District and the changes to them. The District's net assets, the difference between assets and liabilities, may be thought of as one way to measure its financial health or financial position. Over time, increases or decreases in net assets can be an indicator as to whether the financial health is improving or deteriorating. However, it is incumbent upon the observer to consider other non-financial factors such as the regulatory climate, economic conditions, population growth, zoning changes, environmental changes, etc.

#### Analysis of Net Assets

Our analysis will start with a summary of the District's Net Assets as presented in the following table:

Borrego Water District's Net Assets

	2007	2008	Change	
			\$	%
Cash and investments	\$ 7,475,241	\$ 6,802,736	\$ (672,505)	-9.00%
Capital assets, net	11,321,573	12,394,176	1,072,603	9.47%
Other assets	<u>894,011</u>	<u>1,673,007</u>	<u>779,006</u>	<u>87.14%</u>
Total assets	<u>19,690,825</u>	<u>20,869,919</u>	<u>1,179,094</u>	<u>5.99%</u>
Current liabilities	828,526	501,742	(326,784)	-39.44%
Noncurrent liabilities	<u>3,898,694</u>	<u>4,164,042</u>	<u>265,348</u>	<u>6.81%</u>
Total liabilities	<u>4,727,220</u>	<u>4,665,784</u>	<u>(61,436)</u>	<u>-1.30%</u>
Net assets				
Invested in capital assets net of related debt	8,919,552	9,306,513	386,961	4.34%
Restricted	187,887	747,245	559,358	297.71%
Unrestricted	<u>5,856,166</u>	<u>6,150,377</u>	<u>294,211</u>	<u>5.02%</u>
Total net assets	<u>\$ 14,963,605</u>	<u>\$ 16,204,135</u>	<u>\$ 1,240,530</u>	<u>8.29%</u>

- Cash and Investments variance is mainly due to an increase in deposits with fiscal agents of \$339 thousand and a decrease of \$256 thousand in investments with LAIF. A decrease of \$775 thousand in deposits with financial institutions, which was due to the acquisition of fallowing water credits.
- Capital Assets increase is the result of an increase in depreciation of \$459 thousand offset by fixed asset purchases of \$403 thousand and contributed capital of \$1.1 million.
- Current Liabilities variance can be attributed to a decrease of \$216 thousand in accounts payable and \$66 thousand decrease in developer deposits.
- Noncurrent liabilities increase reflects a \$75 thousand pay down in COP payments, a \$36 thousand pay down on the retirement agreement, along with an increase of \$339 thousand in payables to 2007-1 Bondholders.

**BORREGO WATER DISTRICT****MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**Analysis of Revenues and Expenses

## Borrego Water District's Revenues &amp; Expenses

	2007	2008	Change	
			\$	%
OPERATING REVENUES:				
Water revenue	\$ 2,513,097	\$ 2,342,469	\$ (170,628)	-6.79%
Sewer service charges	267,761	292,037	24,276	9.07%
Availability charges	345,623	310,460	(35,163)	-10.17%
Other income	68,642	51,712	(16,930)	-24.66%
Total operating revenues	3,195,123	2,996,678	(198,445)	-6.21%
OPERATING EXPENSES:				
Water operations	991,244	865,933	(125,311)	-12.64%
Sewer operations	115,445	159,269	43,824	37.96%
Depreciation expense	431,991	458,992	27,001	6.25%
General and administrative	1,542,274	1,459,446	(82,828)	-5.37%
Total operating expenses	3,080,954	2,943,640	(137,314)	-4.46%
Operating income (loss)	114,169	53,038	(61,131)	-53.54%
NONOPERATING REVENUES (EXPENSES)				
Property Taxes	16,600	16,600	-	0.00%
Investment income	285,322	236,032	(49,290)	-17.28%
Gain on sale of asset	-	1,800	1,800	100.00%
DWR Grant	84,840	-	(84,840)	-100.00%
Interest expense	(178,449)	(187,559)	9,110	5.11%
Amortization expense	(7,451)	(7,451)	-	-
Total nonoperating revenues (expenses)	200,862	59,422	(141,440)	-70.42%
Income before capital contributions	315,031	112,460	(202,571)	-64.30%
CAPITAL CONTRIBUTIONS	-	1,128,070	1,128,070	100.00%
Change in net assets	315,031	1,240,530	925,499	293.78%
TOTAL NET ASSETS, BEGINNING	14,648,574	14,963,605	315,031	2.15%
TOTAL NET ASSETS, ENDING	\$ 14,963,605	\$ 16,204,135	\$ 1,240,530	8.29%

## BORREGO WATER DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

A discussion of the significant and unanticipated variances of the Borrego Water District's Revenues and Expenses is presented below.

- Sewer service revenue increased primarily due to new connections to the Town Center Sewer.
- Other operating income decreased due primarily to a drop in all new development infrastructure additions.
- Sewer operations expense increased due to new monitoring requirements from the Regional Quality Control Board.
- Investment income decreased due to lower interest rates received during the fiscal year ended June 30, 2008.
- General Administrative and Water Operating expense was down due to lower water production and fewer new service connections.
- Water revenue was down due to lower water usage.
- Capital contributions were up due to the acceptance of new infrastructure at Montesorro.

### BUDGET HIGHLIGHTS

#### Fiscal Year 2008 Actual vs. Fiscal Year 2008 Budget

	<u>2008 Actual</u>	<u>2008 Budget</u>	<u>Variance</u>
Revenues:			
From operations	\$ 2,996,678	\$ 3,213,288	\$ (216,610)
Nonoperating	<u>254,432</u>	<u>408,297</u>	<u>(153,865)</u>
Total revenue	<u>3,251,110</u>	<u>3,621,585</u>	<u>(370,475)</u>
Expenses:			
Water operations	865,933	853,057	12,876
Sewer operations	159,269	170,612	(11,343)
Depreciation expense	458,992	555,698	(96,706)
General and administrative	1,459,446	1,819,856	(360,410)
Nonoperating expenses	<u>195,010</u>	<u>222,362</u>	<u>(27,352)</u>
Total expenses	<u>3,138,650</u>	<u>3,621,585</u>	<u>(482,935)</u>
Capital Contributions	<u>1,128,070</u>	<u>-</u>	<u>1,128,070</u>
Change in net assets	<u>\$ 1,240,530</u>	<u>\$ -</u>	<u>\$ 1,240,530</u>

Actual changes in net assets varied positively by \$925 thousand due primarily to capital contributions.

## **BORREGO WATER DISTRICT**

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

#### **CAPITAL ASSETS AND DEPT ADMINISTRATION**

##### **CAPITAL ASSETS**

At the end of the fiscal year the District had a net investment in various categories of Utility Plant in Service as shown in the following table.

##### Borrego Water District's Utility Plant in Service

	Fiscal Year Ended		Change	
	2007	2008	\$	%
Land and land improvements	\$ 695,729	\$ 908,323	\$ 212,594	30.56%
Flood control facilities	4,319,604	4,319,604	-	-
Sewer facilities	4,269,145	4,754,797	485,652	11.38%
Water facilities	6,464,586	7,193,042	728,456	11.27%
Pipelines, wells and tanks	1,249,453	1,277,812	28,359	2.27%
General facilities	973,517	973,517	-	-
Telemetry system	67,530	67,530	-	-
Equipment and furniture	290,701	248,745	(41,956)	-14.43%
Vehicles	329,413	377,706	48,293	14.66%
Construction in progress	<u>293,931</u>	<u>223,551</u>	<u>(70,380)</u>	<u>-23.94%</u>
	18,953,609	20,344,627	1,391,018	7.34%
Less accumulated depreciation	<u>(7,632,036)</u>	<u>(7,950,451)</u>	<u>(318,415)</u>	<u>-4.17%</u>
Net utility plant in service	<u>\$ 11,321,573</u>	<u>\$ 12,394,176</u>	<u>\$ 1,072,603</u>	<u>9.47%</u>

The major addition to the District's Capital Assets was the acceptance of new infrastructure at Montesororo.

##### **DEBT ADMINISTRATION**

At fiscal year ended June 30, 2008 the District's debt had decreased by \$75,000 or 2.4%. This decrease represents the principal payments due on the Certificates of Participation outstanding. No additional long-term debt was incurred in the current year.

## **BORREGO WATER DISTRICT**

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

#### **ECONOMIC FACTORS AND FUTURE YEAR'S BUDGET AND RATES**

The District's Board of Directors and management considered many factors when setting the fiscal year 2008/2009 budget, user fees and charges. The District attempts to balance revenues with operating expenses that have increased due to inflationary factors, such as cost of living, cost of water, and insurance coverage. During the fiscal year 2008/2009 the District intends to significantly increase its Groundwater Management and Sustainable Water Programs as evidenced by the Capital Budget adopted by the Board for fiscal year ended June 30, 2009.

The District adopted a Water Conservation Program. Water reducing incentives begin in the fiscal year ended June 30, 2008 and Tiered Water Rates will commence fiscal year ended June 30, 2010.

These indicators were taken into consideration when adopting the District's budget for the fiscal year 2008/2009. The budget has been structured to contain costs, but at the same time, continue the District's philosophy of providing the highest levels of service.

#### **Fiscal Year 2008 Actual vs. Fiscal Year 2009 Budget**

	<u>2008</u> <u>Actual</u>	<u>2009</u> <u>Budget</u>	<u>Change</u>	
			<u>\$</u>	<u>%</u>
Revenues:				
Operating revenue	\$ 2,996,678	\$ 2,831,010	\$ (165,668)	-5.53%
Nonoperating revenue	<u>254,432</u>	<u>261,467</u>	<u>7,035</u>	<u>2.76%</u>
Total revenues	<u>3,251,110</u>	<u>3,092,477</u>	<u>(158,633)</u>	<u>-4.88%</u>
Expenses:				
Depreciation expense	458,992	470,000	11,008	2.40%
Other operating expenses	2,484,648	2,299,142	(185,506)	-7.47%
Nonoperating expenses	<u>195,010</u>	<u>227,000</u>	<u>31,990</u>	<u>16.40%</u>
Total expenses	<u>3,138,650</u>	<u>2,996,142</u>	<u>(142,508)</u>	<u>-4.54%</u>
Capital Contributions	1,128,070	1,913,000	784,930	69.58%
Changes in net assets	1,240,530	2,009,335	768,805	61.97%
Beginning net assets	<u>14,963,605</u>	<u>16,204,135</u>	<u>1,240,530</u>	<u>8.29%</u>
Ending net assets	<u>\$ 16,204,135</u>	<u>\$ 18,213,470</u>	<u>\$ 2,009,335</u>	<u>12.40%</u>

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGER**

This financial report is designed to give ratepayers, customers, investors, and creditors a general overview of the District's finances and to demonstrate the District's accountability for the money it receives and the stewardship of the facilities it maintains. If you have questions about this report or need additional information, contact Kim Pitman, Fiscal Officer or Richard Williamson, General Manager & District Engineer at the Borrego Water District.

**BORREGO WATER DISTRICT**STATEMENT OF NET ASSETS  
JUNE 30, 2008**ASSETS**

## Current Assets:

Cash and cash equivalents (Notes 1 and 2)	\$	4,601,821
Restricted cash and cash equivalents (Notes 1 and 2):		
Customer deposits		171,224
Accounts receivable, net of allowance (Note 1):		
Water and sewer charges		328,936
Interest		37,393
Property taxes		2,268
Availability charges		20,333
Other		43,568
Inventories (Note 1)		119,249
Prepaid expenses		<u>35,454</u>
 Total Current Assets		 <u>5,360,246</u>

## Noncurrent Assets:

Debt service:		
Restricted cash and cash equivalents (Notes 1 and 2)		557,867
Restricted interest receivable		1,491
Debt issuance costs, net of amortization (Note 4)		<u>81,200</u>
 Total Debt Service		 <u>640,558</u>
 Fiduciary fund:		
Restricted cash and cash equivalents (Notes 1 and 2)		<u>1,283,937</u>
 Restricted cash and cash equivalents (Notes 1, 2 and 11)		 <u>187,887</u>
 Capital assets not being depreciated:		
Land (Notes 1 and 3)		908,323
Construction in progress (Notes 1 and 3)		223,551
Depreciable capital assets net of accumulated depreciation (Notes 1 and 3)		<u>11,262,302</u>
 Total capital assets net of accumulated depreciation		 <u>12,394,176</u>
 Other Assets:		
Fallowed water credits		743,115
Water rights agreement - well 12		75,000
Water rights - ID4		<u>185,000</u>
 Total Other Assets		 <u>1,003,115</u>
 Total Noncurrent Assets		 <u>15,509,673</u>
 Total Assets		 <u>20,869,919</u>

(continued)

**BORREGO WATER DISTRICT**

(continued)

STATEMENT OF NET ASSETS  
JUNE 30, 2008**LIABILITIES**

## Current Liabilities:

Accounts payable	\$ 111,938
Compensated absences (Note 5)	56,509
Deposits	171,224
Current portion of retirement agreement (Note 5)	36,000
Debt Service:	
Accrued interest payable on certificates of participation	46,071
Current portion of long-term debt (Note 5)	<u>80,000</u>

Total Current Liabilities 501,742

## Noncurrent Liabilities:

Compensated absences (Note 5)	38,755
Retirement agreement (Note 5)	12,000
Fiduciary fund (Note 6):	
Amount payable to community facilities dist 2007-1 bondholders	1,283,937
Certificates of participation, net of current portion (Notes 4 & 5):	<u>2,829,350</u>

Total Noncurrent Liabilities 4,164,042

Total Liabilities 4,665,784

**NET ASSETS**

Invested in capital assets, net of related debt	9,484,826
Restricted	747,245
Unrestricted (Note 7)	<u>5,972,064</u>

Total Net Assets \$ 16,204,135

**BORREGO WATER DISTRICT**

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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008

<b>OPERATING REVENUES:</b>	
Water revenue	\$ 2,342,469
Sewer service charges	292,037
Availability charges	310,460
Other income	<u>51,712</u>
Total Operating Revenues	<u>2,996,678</u>
<b>OPERATING EXPENSES:</b>	
Water operations	865,933
Sewer operations	159,269
Depreciation expense	458,992
General and administrative	<u>1,459,446</u>
Total Operating Expenses	<u>2,943,640</u>
Operating Income (Loss)	<u>53,038</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Property taxes	16,600
Investment income	236,032
Gain on sale of asset	1,800
Interest expense	(187,559)
Amortization expense	<u>(7,451)</u>
Total Nonoperating Revenues (Expenses)	<u>59,422</u>
Income before capital contributions	112,460
<b>CAPITAL CONTRIBUTIONS</b>	<u>1,128,070</u>
Change in Net Assets	1,240,530
<b>TOTAL NET ASSETS, BEGINNING</b>	<u>14,963,605</u>
<b>TOTAL NET ASSETS, ENDING</b>	<u>\$ 16,204,135</u>

**BORREGO WATER DISTRICT**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008**CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts from water and sewer customers	\$ 2,562,648
Receipts from availability charges	306,394
Payments for water and sewer operations	(1,253,645)
Payments for general and administration	(1,461,875)
Other receipts	<u>33,071</u>
Net Cash Provided (Used) by Operating Activities	<u>186,593</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Taxes received	16,195
Deposits received	(65,920)
Retirement agreement payments	(36,000)
Proceeds from DWR Grant	<u>29,125</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(56,600)</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Acquisition and construction of utility plant	(403,525)
Proceeds on sale of assets	1,800
Falloved water credits	(743,115)
Principal paid on long-term debt	(75,000)
Interest payments on long-term debt	(188,648)
Fiduciary fund receipts and payments, net	<u>339,278</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,069,210)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received	<u>266,713</u>
Net Cash Provided (Used) by Investing Activities	<u>266,713</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(672,505)
Cash and Cash Equivalents, Beginning of the Year	<u>7,475,241</u>
Cash and Cash Equivalents, End of the Year (Note 2)	<u>\$ 6,802,736</u>

**Reconciliation of operating income (loss) to net cash flows provided by operating activities:**

Operating income	\$ 53,038
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	458,992
Changes in operating assets and liabilities:	
(Increase) Decrease in accounts receivable, water and sewer charges	(90,499)
(Increase) Decrease in availability charges receivable	(4,066)
(Increase) Decrease in inventories	(12,283)
(Increase) Decrease in prepaid expenses	7,432
Increase (Decrease) in accounts payable	(216,160)
Increase (Decrease) in compensated absences	(9,861)
Net Cash Provided by Operating Activities	<u>\$ 186,593</u>

**Noncash capital financing activities:**

Capital assets of \$1,128,070 were aquired through capital contributions from developers consisting of water and sewer infrastructure

June 30, 2008

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:****a. Reporting Entity:**

The reporting entity "Borrego Water District" (District) includes the accounts of the general District, the related improvement districts within the service area of the general District, and the Borrego Water District Public Facilities Corporation (Corporation).

The Borrego Water District was formed in 1962, under provisions of the California Water District Act Division 13 of the California Water Code. The District was inactive until December 31, 1979 when the San Diego County Local Agency Formation Commission reactivated the District to provide construction funding, and to operate and maintain water, sewer, and flood control facilities of the District.

The Borrego Water District Public Facilities Corporation (Corporation) is a California public benefit non-profit corporation formed May 31, 1996. The Corporation was formed for the purpose of facilitating the purchase of the Borrego Springs Water Company by the District.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement 14. The District is the primary government unit. Component units are those entities that are financially accountable to the primary governmental unit, either because the District appoints a voting majority of the component unit's Board, or because the component unit will provide financial benefit or impose a financial burden on the District. The District has accounted for the Corporation as a "blended" component unit. Despite being legally separate, this unit is so intertwined with the District that it is in substance, part of the District's operations. Accordingly, the balances and transactions of the Corporation are included in the District's financial statements.

The District is governed by an elected board of directors. At June 30, 2008, the board consisted of:

Robert Mendenhall - President  
Katherine King- Vice President  
Rita Andersen- Secretary/Treasurer  
Eleanor Shimeall - Director  
Steven Smiley - Director

**b. Measurement Focus and Basis of Accounting and Financial Statement Presentation:**

On July 1, 2001, the District adopted the provisions of GASB Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board, "*Basic Financial Statements and Management's Discussion and Analysis - For State and Local Governments*". Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):****b. Measurement Focus and Basis of Accounting and Financial Statement Presentation (continued):**

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flow takes place.

The District distinguishes between operating and nonoperating revenues expenses. Operating revenues and expenses of the District consist of charges for services and the cost for providing for these services, including depreciation and excluding interest costs. All other revenues and expenses are reported as nonoperating.

For proprietary type activities, the District has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

**c. Capital Assets and Depreciation:**

Property, plant and equipment are stated at historical cost or estimated fair market value if actual cost is not available. Assets contributed by developers are recorded at their estimated fair market value at the date of contribution.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Capital Assets and Depreciation (Continued):

The District depreciates its fixed assets using the straight-line method with the following estimated useful lives:

Flood control facilities	100 years
Sewer facilities	5 - 75 years
Water facilities	7 - 40 years
Pipelines, wells and tanks	5 - 50 years
Equipment and general facilities	5 - 20 years

d. Water and Sewer Service Fees:

The District assesses water revenue and sewer service charges on all of its customers billed and collected by the District. These fees are assessed in order to provide operating revenue to cover the District's current operating expenses.

e. Claims and Judgments:

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2008, in the opinion of District counsel and management, the District had no material claims which would require loss provision in the financial statements. Small dollar claims and judgments are recorded as expenses when paid.

f. Cash and Cash Equivalents:

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents. The District considers investments of \$4,974,418 held in the California Local Agency Fund (Note 2) and \$1,718,600 held in money market mutual funds at US Bank to be highly liquid.

g. Investments:

Investments are stated at fair value (quoted market price or best estimate thereof, see Note 2). There was no significant difference between the fair value of investments and the basis at June 30, 2008.

h. Maintenance Costs:

All expenditures for maintenance and repair of property, including renewals of minor items, are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of property.

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

## i. Property Taxes and Availability Charges:

Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent of county-wide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local government. In addition, the District assesses property taxes for payments of bond principal and interest and assesses availability charges for operating revenue through the property tax rolls. Property tax revenue and availability charges are recognized in the fiscal year in which they have been levied.

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 10 Second Installment - February 10
Delinquent Date:	First Installment - December 11 Second Installment - April 11

## j. Budgets and Budgetary Accounting:

An annual budget is adopted for the District. Monthly comparisons between actual and budgeted amounts are made by management. Since the budget is prepared on a cash basis and the financial statements are presented on the accrual basis of accounting, a comparison of the two would not be meaningful and has not been presented.

## k. Restricted Assets:

Amounts shown as restricted assets have been restricted by either bond indentures, law, or contractual obligations to be used for specified purposes, such as servicing bonded debt and expansion of the sewer system.

## l. Allowance for Doubtful Accounts:

An allowance for doubtful accounts is provided based on anticipated collectability of the outstanding utility receivables and other receivables at year-end. Management estimates all receivables at June 30, 2008 to be collectible, as any receivables deemed uncollectible have been written off.

## m. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts, and certain liabilities, among other accounts. Actual results could differ from those estimates.

## n. Inventory:

Inventory is valued at average cost. It consists of meters, pipes and other parts required to provide water and sewer service to customers.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

o. Compensated Absences:

The District accounts for compensated absences (unpaid vacations, sick leave and compensatory time) in accordance with GASB Statement No. 16. Compensated absences are recorded as expenses when the benefits are fully vested.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS:

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 4,601,821
Restricted cash and cash equivalents customer deposits	171,224
Restricted cash and investments held by bond trustee	557,867
Other restricted cash and cash equivalents	187,887
Fiduciary funds:	
Cash and investments	<u>1,283,937</u>
 Total cash and investments	 <u>\$ 6,802,736</u>

Cash and Investments as of June 30, 2008 consist of the following:

Cash on hand	\$ 174
Deposits with financial institutions	109,544
Investments considered to be cash and cash equivalents	<u>6,693,018</u>
 Total cash and investments	 <u>\$ 6,802,736</u>

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

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<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	98%	\$ 40,000,000
Certificates of Deposit and Savings Accounts	N/A	75%	20%
U.S. Government Bills, Notes, Bonds, and Money Market Mutual Funds which invest entirely in U.S. Government Bills, Notes, and Bonds	5 years	20%	None

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued):

Investments Authorized by Debt Agreements:

Investments of debt proceeds held by bond trustees 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 trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	No Limitation	No Limitation	No Limitation
Federal Home Loan Bank System Senior debt obligations	No Limitation	No Limitation	No Limitation
U.S. Export-Import bank Direct obligations or fully guaranteed certificates of beneficial ownership	No Limitation	No Limitation	No Limitation
Farmers Home Administration Certificates of beneficial ownership	No Limitation	No Limitation	No Limitation
Federal Financing Bank	No Limitation	No Limitation	No Limitation
Federal Housing Administration Debentures	No Limitation	No Limitation	No Limitation
General Services Administration Participation certificates	No Limitation	No Limitation	No Limitation
Government National Mortgage Association GNMA-guaranteed mortgage-backed bonds	No Limitation	No Limitation	No Limitation
GNMA-guaranteed pass-through obligations	No Limitation	No Limitation	No Limitation
U.S. Maritime Administration Guaranteed title XI financing	No Limitation	No Limitation	No Limitation

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued):

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Department of Housing and Urban Development			
Project notes	No Limitation	No Limitation	No Limitation
Local bonds	No Limitation	No Limitation	No Limitation
New communities- U.S. Government guaranteed debentures	No Limitation	No Limitation	No Limitation
U.S. Public Housing Notes and Bonds – U.S. Government guaranteed public housing notes and bonds	No Limitation	No Limitation	No Limitation
Federal Home Loan Bank System			
Senior debt obligations	No Limitation	No Limitation	No Limitation
Federal Home Loan Mortgage Corporation			
Participation certificates	No Limitation	No Limitation	No Limitation
Senior debt obligations	No Limitation	No Limitation	No Limitation
Federal National Mortgage Association			
Mortgage-backed securities and senior debt obligations	No Limitation	No Limitation	No Limitation
Student Loan Marketing Association			
Senior debt obligations	No Limitation	No Limitation	No Limitation
Resolution Funding Corporation obligations	No Limitation	No Limitation	No Limitation
Farm Credit System Corporation			
Consolidated system-wide bond & notes	No Limitation	No Limitation	No Limitation
Bankers Acceptances	270 days	No Limitation	No Limitation
Repurchase Agreements	No Limitation	No Limitation	No Limitation
Corporate Commercial Paper	No Limitation	No Limitation	No Limitation
Certificates of Deposit	No Limitation	No Limitation	No Limitation
Municipal Bonds or Notes	No Limitation	No Limitation	No Limitation
Market Mutual Funds	No Limitation	No Limitation	No Limitation

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued):

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
Investment Agreements	No Limitation	No Limitation	No Limitation
Any Investment authorized by the Entity's Investment Policy	No Limitation	No Limitation	No Limitation

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 rate 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 as necessary to provide the cash flow and liquidity needed for operations. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average duration of its portfolio. Duration measures the investments exposure to fair value arising from changing interest rates.

<u>Investment Type</u>	<u>Amount as of June 30, 2008</u>	<u>Weighted Average Duration (in years)</u>
Local Agency Investment Fund	\$ 4,851,213	-
Held by Bond Trustee:		
U.S. Government Treasury Obligations:		
Mutual Funds	434,663	-
Local Agency Investment Fund	123,205	-
Held by Fiscal Agent:		
U.S. Government Treasury Obligations:		
Mutual Funds	<u>1,283,937</u>	-
Total	<u>\$ 6,693,018</u>	

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 in the following table are the Standard and Poor's credit ratings for the District's investments.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued):

<u>Investment</u>	<u>Total as of June 30, 2008</u>	<u>Not Required to be Rated</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
Local Agency						
Investment Fund	\$ 4,851,213	\$ -	\$ -	\$ -	\$ -	\$ 4,851,213
Held by Bond Trustee:						
U.S. Government						
Treasury						
Obligations:						
Mutual funds	434,663	-	434,663	-	-	-
Local Agency						
Investment Fund	123,205	-	-	-	-	123,205
Held by Fiscal Agent:						
U.S. Government						
Treasury						
Obligations:						
Mutual funds	<u>1,283,937</u>	<u>-</u>	<u>1,283,937</u>	<u>-</u>	<u>-</u>	<u>-</u>
 TOTALS	 <u>\$ 6,693,018</u>	 <u>\$ -</u>	 <u>\$ 1,718,600</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 4,974,418</u>

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 governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2008, the District’s deposits (bank balances) were insured by the Federal Depository Insurance Corporation up to \$100,000 and the remaining balance of the deposits of \$159,722 were collateralized under California Law. The difference between the bank balances and deposits represent deposits in transit and outstanding checks.

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued):

California Local Agency Investment Fund (LAIF):

The LAIF is a voluntary program, created by a State Statute in 1977 as an investment alternative through which local governments may pool investments. The Local Agency Advisory Board, which consists of five members as designated by State Statute, has oversight responsibility over LAIF. The District may invest up to \$40,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted into cash within 24 hours without loss of interest. At June 30, 2008 the total fair value of LAIF was \$70,154,701,610. The District's proportionate share of the value is \$4,974,418 that includes its fiscal agent LAIF account totaling \$123,205. Included in LAIF's investment portfolio are structured notes (such as Callable Agency Notes and various Corporate and Agency Floaters) totaling \$6,113,006,000, and asset backed securities (such as Small Business Association Pools, Agency CMOs, GNMA Pools and FHLMC Pools) totaling \$4,188,272,000. LAIF's, and the District's, exposure to credit, market, or legal risk is not available.

## 3. CHANGES IN CAPITAL ASSETS IN SERVICE:

A summary of changes in Capital Assets in Service is as follows:

	Balance at <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2008</u>
Capital assets, not being depreciated:				
Land	\$ 695,729	\$ 212,594	\$ -	\$ 908,323
Construction in progress - Other	293,931	89,809	(292,431)	91,309
Construction in progress - Intertie (Note 15)	-	132,242	-	132,242
Total capital assets, not being depreciated	989,660	434,645	(292,431)	1,131,874
Capital assets, being depreciated:				
Flood control facilities	4,319,604	-	-	4,319,604
Sewer facilities	4,269,145	485,652	-	4,754,797
Water facilities	6,464,586	728,456	-	7,193,042
Pipelines, wells and tanks	1,249,453	28,359	-	1,277,812
General facilities	973,517	-	-	973,517
Telemetry system	67,530	-	-	67,530
Equipment and furniture	290,701	38,869	(80,825)	248,745
Vehicles	329,413	108,045	(59,752)	377,706
Total capital assets, being depreciated	17,963,949	1,389,381	(140,577)	19,212,753
Less accumulated depreciation	<u>(7,632,036)</u>	<u>(458,992)</u>	<u>140,577</u>	<u>(7,950,451)</u>
Total capital assets being depreciated, net	<u>10,331,913</u>	<u>930,389</u>	<u>-</u>	<u>11,262,302</u>
Capital Assets, net of accumulated depreciation	<u>\$ 11,321,573</u>	<u>\$ 1,365,034</u>	<u>\$ (292,431)</u>	<u>\$ 12,394,176</u>

## 4. BOND ISSUE COSTS AND DISCOUNTS:

Bond issuance costs and discounts relating to the Certificates of Participation (Notes 5b and 5c) are being amortized over the life of the bond issue using the straight-line method. A summary of costs and amortization is as follows:

	Balance at June 30, 2007	Additions	Amortization	Balance at June 30, 2008
Unamortized bond discounts:				
1997 Certificates of Participation	\$ 26,235	\$ -	\$ (1,328)	\$ 24,907
1998 Certificates of Participation	42,730	-	(1,987)	40,743
	<u>\$ 68,965</u>	<u>\$ -</u>	<u>\$ (3,315)</u>	<u>\$ 65,650</u>
Unamortized debt issuance costs:				
1997 Certificates of Participation	\$ 40,619	\$ -	\$ (2,057)	\$ 38,562
1998 Certificates of Participation	44,717	-	(2,079)	42,638
	<u>\$ 85,336</u>	<u>\$ -</u>	<u>\$ (4,136)</u>	<u>\$ 81,200</u>
Total Amortization Expense			<u>\$ (7,451)</u>	

## 5. LONG-TERM DEBT:

a. A summary of changes in long-term debt for the year ended June 30, 2008 is as follows:

	Balance at June 30, 2007	Additions	Amortization	Balance at June 30, 2008	Current Portion
1997 Certificates of Participation	\$ 1,605,000	\$ -	\$ (40,000)	\$ 1,565,000	\$ 45,000
1998 Certificates of Participation	1,445,000	-	(35,000)	1,410,000	35,000
	3,050,000	-	(75,000)	2,975,000	80,000
Less unamortized bond discounts	(68,965)	-	3,315	(65,650)	-
Total Certificates of Participation	<u>2,981,035</u>	<u>-</u>	<u>(71,685)</u>	<u>2,909,350</u>	<u>80,000</u>
Compensated absences	105,125	58,791	(68,652)	95,264	56,509
Retirement agreement	84,000	-	(36,000)	48,000	36,000
Total Non-current Liabilities	<u>\$ 3,170,160</u>	<u>\$ 58,791</u>	<u>\$ (176,337)</u>	<u>\$ 3,052,614</u>	<u>\$ 172,509</u>

5. LONG-TERM DEBT (Continued):

b. 1997 Certificates of Participation

On March 31, 1997, the District issued Certificates of Participation in the amount of \$1,900,000 in order to:

1. Acquire the water system facilities of the Borrego Springs Water Company (a privately held, public utility company).
2. Refund certain outstanding obligations of the Borrego Springs Water Company assumed by the District.
3. Fund a reserve fund for the certificates.
4. Pay delivery costs of the certificates.

The certificates are payable in annual principal installments of \$20,000 to \$140,000 on April 1 of each year through 2027. Interest is payable semi-annually on April 1 and October 1 at interest rates ranging from 6.125% to 7.000% per annum. The Certificates are payable solely from installment payments to be made by the District to the Borrego Water District Public Facilities Corporation. The installment payments are a special obligation of the District payable solely from revenues of Improvement District No. 4 and certain funds and accounts created by agreement.

The annual requirements to amortize the Certificates of Participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 45,000	\$ 108,000	\$ 153,000
2010	45,000	105,075	150,075
2011	50,000	102,150	152,150
2012	50,000	98,800	148,800
2013	55,000	95,450	150,450
2014-2018	340,000	415,150	755,150
2019-2023	470,000	281,400	751,400
2024-2027	510,000	95,050	605,050
Totals	<u>\$ 1,565,000</u>	<u>\$ 1,301,075</u>	<u>\$ 2,866,075</u>

5. LONG-TERM DEBT (Continued):

c. 1998 Certificates of Participation

On December 16, 1998, the District issued Series 1998 Certificates of Participation in the amount of \$1,665,000 in order to:

1. Acquire and construct water system improvements for Improvement District No. 4
2. Fund the Reserve Fund for the certificates, and
3. Pay costs of issuance of the certificates.

The certificates are payable in annual principal installments ranging from \$25,000 to \$250,000 on April 1<sup>st</sup> of each year through 2028. Interest is payable semi-annually on April 1 and October 1 at interest rates ranging from 4.0% to 5.5% per annum. The certificates are payable solely from installment payments to be made by the District to the Borrego Water District Public Facilities Corporation. The installment payments are a special obligation of the District payable solely from revenues of Improvement District No. 4 and certain funds and accounts created by agreement.

The annual requirements to amortize the Series 1998 Certificates of Participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 35,000	\$ 76,285	\$ 111,285
2010	40,000	74,465	114,465
2011	40,000	72,385	112,385
2012	45,000	70,305	115,305
2013	45,000	67,965	112,965
2014-2018	260,000	302,420	562,420
2019-2023	345,000	223,720	568,720
2024-2028	600,000	118,250	718,250
Totals	<u>\$ 1,410,000</u>	<u>\$ 1,005,795</u>	<u>\$ 2,415,795</u>

5. LONG-TERM DEBT (Continued):

d. Future Maturities of Long-Term Debt:

<u>For the Year Ending June 30</u>	<u>1997 Certification of Participation</u>	<u>1998 Certification of Participation</u>	<u>Total</u>
2009	\$ 45,000	\$ 35,000	\$ 80,000
2010	45,000	40,000	85,000
2011	50,000	40,000	90,000
2012	50,000	45,000	95,000
2013	55,000	45,000	100,000
2014-2018	340,000	260,000	600,000
2019-2023	470,000	345,000	815,000
2024-2028	510,000	600,000	1,110,000
Totals	<u>\$ 1,565,000</u>	<u>\$ 1,410,000</u>	<u>\$ 2,975,000</u>

e. Retirement agreement:

The District entered into a retirement agreement effective December 31, 2003 with a former general manager. The retirement agreement calls for the District to pay him three-thousand dollars (\$3,000) per month starting January 31, 2004 and continuing for seventy (70) months until October 31, 2009.

f. Compensated absences

Compensated absences represent the estimated liability for employees' accrued vacation and sick leave for which employees are entitled to be paid upon termination.

g. Community Facilities District No. 95-1 1996 Special Tax Bonds

In 1996 the Board of Directors established the Community Facilities District 95-1. On July 31, 1996, voters approved the issuance of \$11,000,000 of Community Facilities District 95-1 Special Tax Bonds to advance refund the 1987 refunding bonds and payoff delinquent assessments on land owned by Rams Hill, LLC. As a condition of the issuance of the 1996 Bonds, Rams Hill, LLC paid \$504,000 of delinquent assessments levied by the District and collected by the Tax Collector of the County of San Diego for debt service on the 1987 Refunding Bonds, maintenance, operation and administrative expenses.

The 1996 Bonds do not constitute an indebtedness of the District and are payable solely from the assessments assessed in Community Facilities District No. 95-1 less administrative costs. In the opinion of District Management and Counsel, these Bonds are not payable from any revenues or assets of the District or its improvement districts, and neither the full faith and credit or the taxing authority of the District or its improvement districts is obligated to the payment of principal or interest on the bonds.

On June 14, 2007, Community Facilities District No. 2007-1 issued \$9,530,000 of special tax bonds to advance refund the 1996 bonds. A portion of the proceeds from this debt issue (\$8,031,500) as well as remaining monies held with the trustee for the 95-1 bonds (\$615,291 from the 95-1 Special Tax Fund and \$1,480,000 from the 95-1 Bond Reserve Fund) were deposited into an escrow account to refund the 95-1 bonds. At June 30, 2007 principal outstanding on the 95-1 bonds was \$9,550,000. On August 1, 2007 the 95-1 bonds were refunded at a premium of 102%.

## 5. LONG-TERM DEBT (Continued):

h. Community Facilities District No. 2007-1 2007 Special Tax Bonds

On March 14, 2007 the Board of Directors adopted a resolution stating its intention to establish Community Facilities District No. 2007-1 and to authorize bonded indebtedness within the Community Facilities District. On April 25, 2007, the Community Facilities District 2007-1 was formed and an election was held to authorize the Community Facilities District 2007-1 to incur bonded indebtedness of up to \$11,000,000 to refinance outstanding balances of the Community Facilities District 95-1 1996 Special Tax Bonds. On June 14, 2007 the Community Facilities District No. 2007-1 issued the 2007 Special Tax Bonds in the amount of \$9,530,000.

The bonds consisted of \$5,270,000 of 5.75% term bonds due August 1, 2025 with principal payments beginning on August 1, 2010 and \$4,260,000 of 5.75% term bonds due August 1, 2032 with principal payments beginning August 1, 2026.

The 2007 Special Tax Bonds do not constitute an indebtedness of the District and are only secured by a pledge of Net Taxes (which consist of the Special Taxes collected minus certain administrative expenses) and amounts on deposit in the Special Tax Fund. In the opinion of the District management and council the full faith and credit of the Borrego Water District and the Community Facilities District are not pledged to the payment of the Bonds, nor is the payment of the Bonds secured by any encumbrance, mortgage or other pledge of property of the Borrego Water District or the Community Facilities District.

The Special Tax is to be levied and collected by the county at the same time and in the same manner as general ad valorem property taxes. The Community Facilities District is to receive all Special Taxes in trust and immediately deposit all amounts with the Trustee. Per Borrego Water District management representation, at June 30, 2008 all deposits received from the Community Facilities District have been deposited with the Trustee.

## 6. FIDUCIARY FUNDS:

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's Fiduciary fund includes the Community Facilities District 2007-1 Mello-Roos Bond Fund. The assets and related liabilities of this Fiduciary fund is included in the accompanying Statement of Net Assets under the captions "Fiduciary fund: restricted cash and cash equivalents," and "Fiduciary fund: amount payable to community facilities dist 2007-1 bondholders" respectively.

## 7. RESERVES OF UNRESTRICTED NET ASSETS:

For internal purposes, the Board of Directors adopted a reserve policy to reserve unrestricted net assets. The reserves are meant to reflect the intentions of the Board for those net assets not legally restricted. The reserve balance for the year ending June 30, 2008 is as follows:

Reserve for Water Conservation Program Implementation	\$ 324,000
Reserve for Sustainable Water Program	1,588,376
Reserve for New Development Engineering	205,000
Reserve for Water Distribution System Improvements	229,000
Reserve for New Production Wells and Upgrades	360,000
Reserve for Storage Tanks	1,300,000
Reserve for Sewer System Improvements	80,000
Reserve for Vehicles/Rolling Stock	97,000
Reserve for Building/Structures	100,000
Reserve for Office/Engineering/Administration	55,000
Reserve for Groundwater Management Program	<u>1,633,688</u>
 Total	 <u>\$ 5,972,064</u>

The nature and purpose of the District's reserves and designation are explained below:

a. Reserve for Water Conservation Program Implementation

The reserve for water conservation program is to provide funds to implement the District's water conservation program, including, but not limited to, customer awareness, District staff support, sample conservation landscaping gardens, remote read water meter replacements, turf replacement incentive, low flush toilet replacement, low water use washing machine replacement, irrigation efficiency audits, irrigation improvements incentive and publications/school coordination/library program/Water Awareness Week. This program will be reviewed annually.

b. Reserve for Sustainable Water Program

The reserve for sustainable water program is to provide funds to implement the District's sustainable water program, including, but not limited to, planning/preliminary engineering, district staff support, data collection, water rights availability/inventory, legal support, the Clark Lake project and the integrated resource water management plan. This program will be reviewed annually.

c. Reserve for New Development Engineering

The reserve for new development engineering is to provide funds for engineering services related to new development, including, but not limited to review of engineering plans, inspection, creating a WATERCAD base model as well as updating the Atlas and WATERCAD models. This program will be reviewed annually.

d. Reserve for Water Distribution System Improvements

The reserve for water distribution system improvements is to provide funds to improve and replace the existing water distribution system and/or expand the existing water system, including, but not limited to, securing all flushing stations, replacing and/or constructing new fire hydrants (10), remote meter read conversion (deep well), and new waterlines at: Verbena, Cloudy Moon to Borrego Springs Road (1800 feet), and at Church Lane Interconnect, and all engineering and administrative costs related thereto. This program will be reviewed annually.

## 7. RESERVES AND DESIGNATION OF UNRESTRICTED NET ASSETS(Continued):

e. Reserve for New Production Wells and Upgrades

The reserve for new production wells and upgrades is to provide funds to upgrade existing wells and/or drill and equip new production wells, including, but not limited to, central services area well, and CSD Well 5 improvements and all engineering and administrative costs related thereto. This program will be reviewed annually.

f. Reserve for Storage Tanks

The reserve for new production wells and upgrades is to provide funds to replace existing storage tanks, including, but not limited to, replacement of the 800,000 gallon tank with a 1,000,000 gallon tank in the Southern Service Area, and replacement of the twin tanks with a 1,000,000 gallon tank, and all engineering and administrative costs related thereto. This program will be reviewed annually.

g. Reserve for Sewer System Improvements

The reserve for sewer system improvements is to provide funds to improve the District's sewer system, including, but not limited to, constructing a new monitor well, transfer pump and tank, scum well pump upgrades, safety equipment, engineering a new lift station, and engineering a sewer system management plan/overflow prevention program, and all engineering and administrative costs related thereto. This program will be reviewed annually.

h. Reserve for Vehicles/Rolling Stock

The reserve for vehicles/rolling stock is to provide funds to upgrade and/or replace the District's vehicles and rolling stock, including but not limited to, a pick-up truck for the Sewer System Superintendent, replacement of crew/repair truck (4wd, 1 ton, lift gate), and to obtain a fork lift. This program will be reviewed annually.

i. Reserve for Building/Structures

The reserve for building/structures is to provide funds to upgrade and/or replace the District's buildings and structures, including, but not limited to, replacement of the well houses (1/3 each for 3 years). This program will be reviewed annually.

j. Reserve for Office/Engineering/Administration

The reserve for office/engineering/administration is to provide for GIS/WATERCAD survey support, data acquisition and verification, the purchase of air photo imagery and District fee study. This program will be reviewed annually.

k. Reserve for Groundwater Management Program

The reserve for groundwater mitigation is to provide funds to implement and update the District's groundwater management program, including, but not limited to, the DWR groundwater basin study, and groundwater model upgrades, and all engineering and administrative costs related thereto.

## 8. JOINT POWERS AUTHORITY:

Since 1983, the District has participated in the Association of California Water Agencies Joint Powers Insurance Authority (JPIA), a risk-pooling self-insurance authority. JPIA is a consortium of public agencies in Southern California established under the provisions of California Government Code. The purpose of the authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Deposits to JPIA are expensed by the District over the policy term and are subject to retroactive adjustment.

At June 30, 2008, the District participated in the self-insurance programs of the Authority as follows:

Property Loss – Insured up to \$7,119,578 replacement value with varying deductibles; the Authority is self-insured up to \$50,000 and excess insurance coverage has been purchased from \$50,000 to \$100,000,000.

General Liability – Insured up to \$50,000,000 per occurrence with no deductible; the Authority is self-insured up to \$1,000,000 and excess insurance coverage has been purchased from \$1,000,000 to \$50,000,000.

Auto Liability – Insured up to \$50,000,000 per occurrence with no deductible; the Authority is self-insured up to \$1,000,000 and excess insurance coverage has been purchased from \$1,000,000 to \$50,000,000.

Public Officials' and Errors and Omissions – Insured up to \$50,000,000 per occurrence; the Authority is self-insured up to \$1,000,000 and excess insurance coverage has been purchased from \$1,000,000 to \$50,000,000.

Fidelity – Insured up to \$400,000 per occurrence with a \$1,000 deductible; the Authority is self-insured up to \$100,000 and excess insurance coverage has been purchased up to \$400,000.

Earthquake and Flood – Insured up to \$7,048,772 replacement value subject to a 5% of value of risk deductible which has a \$25,000 minimum. Insurance coverage has been purchased up to \$10,000,000.

Workers' Compensation – Insured up to the statutory limit per occurrence; the Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased from \$2,000,000 to the statutory limit.

The District has not settled any claims that have exceeded insurance coverage in any of the past three years.

## 9. PUBLIC EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PLAN):

Plan Description:

Effective June 30, 2000 the District adopted a defined benefit pension plan. The District's defined benefit pension plan, the Miscellaneous Plan for the Borrego Water District (Plan), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public entities within the State of California. State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office: 400 P Street, Sacramento, CA 95814.

9. DEFINED BENEFIT PLAN (Continued):

Funding Policy:

Participants are required to contribute 7% of their annual covered salary. The District makes some of the contributions required of District employees on their behalf and for their account. Currently the District is paying the first 4% leaving the remaining 3% to be made by the employees. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The employer contribution for the fiscal year ended June 30, 2008 for the miscellaneous employees plan was \$60,285. The required employer contribution for this year into the plan was 10.172% of their annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Costs:

For fiscal year 2007-2008, the District's annual pension cost of \$60,285 was equal to the District's required and actual contributions. The required contribution for the fiscal year 2008 was determined as part of the June 30, 2005 actuarial valuation (most recent available) using the entry age normal actuarial cost method with the contributions determined as a percent of payroll. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, and (c) inflation of 3.00%, (d) payroll growth of 3.25%, and (e) an individual salary growth based on merit scale varying by duration of employment, coupled with an assumed annual inflation component of 3.00%, and an annual production growth of 0.25%. The actuarial value of the Plans' assets was determined using a technique that smooths the effect of short-term volatility in the market value of investments over a three-year period. The Plans' initial unfunded liabilities are amortized over a closed period that depends on the Plans' date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling 30-year period, which results in an amortization of 10% of unamortized gains and losses each year. If the Plans' accrued liability exceeds the actuarial value of the plans' assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period. The Plans' amortization period at June 30, 2008 was 11 years.

Three-Year Trend Information for Miscellaneous:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/06	\$ 62,583	100%	-
6/30/07	\$ 66,365	100%	-
6/30/08	\$ 60,285	100%	-

9. DEFINED BENEFIT PLAN (Continued):

Schedule of Funding Progress for PERS – Most Recent Available:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B-A/C)
6/30/04: *	\$428,025,075	\$437,494,341	\$9,469,266	97.8%	\$159,135,314	6.0%
6/30/05: *	\$459,996,995	\$484,351,523	\$24,354,528	95.0%	\$174,127,476	14.0%
6/30/06: *	\$454,602,459	\$478,122,215	\$23,519,756	95.1%	\$170,458,082	13.8%

\* - After June 30, 2003, PERS combined the District's plan into a risk pool with other agencies of fewer than 100 employees. The funding status is the status for the risk pool. Individual District funding status is not available.

In October 2008 the District changed their PERS defined benefit plan from a 2% at age 60 retirement plan to a 3% at age 60 retirement plan. They are combined into a new risk pool with agencies of fewer than 100 employees.

Schedule of Funding Progress for PERS – Most Recent Available for the 3% at 60 retirement plan:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B-A/C)
6/30/05: *	\$405,480,805	\$499,323,280	\$93,842,475	81.2%	\$108,618,321	86.4%
6/30/06: *	\$501,707,110	\$620,492,183	\$118,785,073	80.9%	\$126,049,770	94.2%
6/30/07: *	\$576,069,687	\$699,663,524	\$123,593,837	82.3%	\$139,334,562	88.7%

\* - After June 30, 2003, PERS combined the District's plan into a risk pool with other agencies of fewer than 100 employees. The funding status is the status for the risk pool. Individual District funding status is not available.

10. NET WORKING CAPITAL:

Net working capital at June 30, 2008 was as follows:

Current Assets	\$ 5,360,246
Current Liabilities Payable from Current Assets	<u>(501,742)</u>
Net Working Capital	<u>\$ 4,858,504</u>

11. WILLIAMS SETTLEMENT:

The Borrego Water District is a co-plaintiff in the case of Sweetwater Authority, et al. v. Dynergy, et al., a case which has been merged with class action cases against thirteen energy companies alleging antitrust and unfair business practice causes of action as a result of billing practices which occurred in 2000 and 2001. The District has estimated its total damages at \$320,887. On November 11, 2002 the Williams Companies, one of the thirteen defendants, settled with the Plaintiffs. The settlement provided for compensation to the District in the amount of \$165,045 payable in three annual installments as follows:

January 2003	\$64,482
January 2004	\$59,593
January 2005	\$40,970

The District has received all of the payments and was awarded \$22,842 of attorney fees relating to the Settlement. The Settlement Agreement provides that this money is to be placed in a separate reserve account and shall be used for projects which develop energy conservation and efficiency.

12. BORREGO SPRINGS PARK COMMUNITY SERVICES DISTRICT INTERTIE AGREEMENT:

On June 25, 2008 the Borrego Water District entered into an agreement with the Borrego Springs Park Community Service District (CSD) to consolidate the CSD into the District and accomplish an intertie between the two Districts. As of June 30, 2008 the consolidation of the two Districts has not been completed and the District has incurred \$222,051 on the construction of the intertie which are being reported as construction in progress. In the event that the consolidation between the two Districts is terminated there are provisions in the agreement that dictate who is responsible for payment of the intertie costs.

13. SUBSEQUENT EVENT:

On August 1, 2008, the Borrego Water District issued \$2,775,000 of 2008 Refunding Installment Purchase Payments while concurrently refunding all of its outstanding 1997 Certificates of Participation and 1998 Certificates of Participation. The transaction was a current refunding intended to save the District future interest costs due to lower market interest rates.

**SUPPLEMENTARY INFORMATION**

SCHEDULE OF REVENUES AND EXPENSES BY ACTIVITY  
For the Year Ended June 30, 2008

REVENUE	Administrative & General		Water Operations				Sewer Operations		Flood Control	Pest Control	Debt Service	Elimination Entries	Total
	ID1	ID3	ID4	ID1	ID2	ID2							
Water sales	4,100	863,645	157,328	1,317,396	-	-	-	-	-	-	-	-	2,342,469
Property Assessments	41,789	2,040	7,099	-	120,215	-	6,291	10,846	-	-	-	-	188,280
Standby Charges	84,000	-	26,800	-	-	-	11,380	-	-	-	-	-	122,180
Sewer Revenue	-	-	-	-	126,954	236,121	-	-	-	-	-	(71,038)	292,037
Admin Allocations	911,197	-	-	-	-	-	-	-	-	-	-	(911,197)	-
Gain on Sale of Asset	1,800	-	-	-	-	-	-	-	-	-	-	-	1,800
Property Taxes	16,600	-	-	-	-	-	-	-	-	-	-	-	16,600
Other Income	30,558	7,041	133	13,366	-	614	-	-	-	-	-	-	51,712
Interest	215,060	2,323	-	82	-	-	-	-	-	18,567	-	-	236,032
Capital Contributions	-	648,620	-	-	479,450	-	-	-	-	-	-	-	1,128,070
Total revenue	1,305,104	1,523,669	191,360	1,330,844	726,619	236,735	17,671	10,846	18,567	(982,235)	-	-	4,379,180
<b>EXPENSES</b>													
Depreciation	80,750	94,510	6,898	147,615	76,769	21,794	-	30,656	-	-	-	-	458,992
Salaries & Wages	344,754	67,404	11,156	210,672	24,661	38,314	-	-	-	-	-	-	696,961
Pumping-electricity	-	108,896	-	201,220	23,168	-	-	-	-	-	-	-	333,284
Interest	-	-	-	-	-	-	-	-	-	187,559	-	-	187,559
Maintenance and Repairs	30,084	34,011	4,450	65,927	34,472	-	-	-	-	-	-	-	168,944
Contract Labor	6,753	-	-	20,902	2,637	-	-	-	-	-	-	-	9,390
Materials	-	12,473	3,708	-	-	-	305	-	-	-	-	-	37,388
Groundwater Study	253,186	-	-	-	-	-	-	-	-	-	-	-	253,186
Engineering Services	62,922	-	-	-	11,913	2,379	-	-	-	-	-	-	77,214
Administrative Services	6,024	-	-	-	-	-	-	-	-	-	-	-	6,024
Insurance	70,199	-	-	-	-	-	-	-	-	-	-	-	70,199
Employee Benefits	230,769	-	-	-	5,568	5,568	-	-	-	-	-	-	241,905
Office Expenses	151,158	2,961	106	3,736	611	-	-	-	-	-	-	-	158,572
Taxes	15,206	2,027	355	6,322	738	1,130	-	-	-	-	-	-	25,778
Telemetry	-	7,899	-	8,223	352	704	-	-	-	-	-	-	17,178
Testing/Lab Work	775	4,067	35	8,166	4,616	-	-	-	-	-	-	-	17,659
Legal Expense	152,543	-	-	-	-	-	-	-	-	-	-	-	152,543
Audit Fees	24,000	-	-	-	-	-	-	-	-	-	-	-	24,000
Telephone	21,346	-	-	-	576	-	-	-	-	-	-	-	21,922
Fuel & Oil	9,673	10,152	3,458	17,634	70	-	-	-	-	-	-	-	40,987
Board Stipend	27,050	-	-	-	-	-	-	-	-	-	-	-	27,050
Conference/Travel	4,247	-	-	-	-	-	-	-	-	-	-	-	4,247
Amortization Expense	-	-	-	-	-	-	-	-	-	7,451	-	-	7,451
Purchased Water	-	-	49,725	3	-	-	-	-	-	-	-	-	49,728
Other Expenses	48,757	-	-	245	1,428	59	-	-	-	-	-	-	50,489
Administrative Allocation	-	251,757	73,645	422,181	75,482	73,304	5,368	3,234	6,226	(911,197)	-	-	-
Reimbursement Sewer Dpt	-	-	-	-	-	71,038	-	-	-	-	-	(71,038)	-
Total expenses	1,540,196	596,157	153,536	1,112,846	263,061	214,290	5,673	33,890	201,236	(982,235)	-	-	3,138,650
Change in net assets	(235,092)	927,512	37,824	217,998	463,558	22,445	11,998	(23,044)	(182,669)	-	-	-	1,240,530

See accompanying independent auditors' report and notes to financial statements.