



Hosaka, Rotherham & Company  
Certified Public Accountants

James A. Rotherham, CPA  
CEO & Managing Partner

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Roy T. Hosaka, CPA  
Retired

James C. Nagel, CPA  
Retired

**BORREGO WATER DISTRICT**  
**REPORT ON EXAMINATION OF**  
**FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEARS ENDED**  
**JUNE 30, 2013 AND JUNE 30, 2012**

**BORREGO WATER DISTRICT**

**INTRODUCTORY SECTION**

**JUNE 30, 2013**

**BORREGO WATER DISTRICT  
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JUNE 30, 2013**

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**BORREGO WATER DISTRICT**

**FINANCIAL SECTION**

**JUNE 30, 2013**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Borrego Water District  
Borrego Springs, California

### Report on the Financial Statements

We have audited the accompanying financial statements of Borrego Water District, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents. The prior year summarized financial information has been derived from Borrego Water District's June 30, 2012, Annual Financial Report, and was audited by others dated October 18, 2012, expressing an unqualified opinion on those statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## INDEPENDENT AUDITORS' REPORT

Page 2

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Borrego Water District, as of June 30, 2013, and the changes in financial position and cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2013, on our consideration of the Borrego Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Borrego Water District's internal control over financial reporting and compliance.

*Hosaka, Rotherham & Company*

San Diego, California  
August 29, 2013

**BORREGO WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

Our discussion and analysis of the Borrego Water District (District) basic financial statements provide general readers with an overview of the District's financial position and results of operations for the fiscal year ended June 30, 2013. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited financial statements. These statements are located in the section following the MD&A. This discussion and analysis, as well as the basic financial statements that it accompanies, have been prepared by management of the District and are its responsibility.

**FINANCIAL HIGHLIGHTS**

During the fiscal year ended June 30, 2013, the following events impacted, or have the potential to impact, the finances of the District:

- On July 17, 2012, the District's Board of Directors approved a revenue adjustment of a twenty percent (20%) increase in its water and sewer services for all customers of the District effective beginning with the September 2012 billing statement. This increased rates previously in effect in FY 2012 for all customers.
- On July 25, 2012, the District entered into an agreement to sell 236.96 acres of vacant land located in the Clark Dry Lake area of San Diego County to the Anza-Borrego Foundation for \$94,784. The District purchased the land September 10, 1997, at a cost of \$110,000. The transaction closed escrow September 25, 2012.
- On October 2, 2012, the District received \$36,000 for the Community Service District (CSD) Wastewater Treatment Plant. This package plant was abandoned during the fiscal year ended June 30, 2011.
- On October 24, 2012, the District's Board approved the sale of a communications antenna site to San Diego County (County) for \$124,000. This site had been under a rental agreement for the past 20 years with the County. The site measures 40 ft. by 60 ft. and comprises a portion of the parcel currently being occupied by the existing County antenna, mechanical building, and 1.25 million gallon reservoir. The transaction closed escrow January 10, 2013.
- On November 28, 2012, the California Department of Water Resources (DWR) denied the Anza-Borrego Desert (ABD) Region's Integrated Regional Water Management (IRWM) round two planning grant request for \$841,779 that was submitted to DWR in March 2012.
- On January 30, 2013, the San Diego County Board of Supervisors passed a Groundwater Ordinance Amendment and Memorandum of Agreement (MOA) with the District regarding the groundwater overdraft condition in Borrego Valley. Under the MOA with the District, the County will recognize water credits issued by the District. Water credits are issued for fallowing actively irrigated farmland. If the water credits follow all the criteria set forth in the MOA, these water credits will meet the County's groundwater mitigation requirements for new development in the Borrego Valley.
- On March 27, 2013, the District's Board approved a policy for Water and Sewer Service to New Development. The policy sets the administrative process and developer's charges for any residential or commercial development or service requirement that increases the demand on the District's water supply and/or distribution system and/or its sewer collection and treatment system whether by increasing the intensity of use or by altering the use of land.

**BORREGO WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

- On March 27, 2013, the District's Board approved the Demand Offset Mitigation Water Credits Policy that amends the District's water credit and mitigation policy adopted July 2010. This new policy meets all the criteria as set forth in the MOA between the County and the District adopted January 2013.
- On April 24, 2013, the District reduced its staff by 29% through layoffs and retirements.
- On May 13, 2013, the District's Board approved rate increases for FY 2014 of 13.75% for sewer rates; 15% for water base rates; and 19% for water commodity rates over the FY 2013 rates in effect. The new rates took effect July 1, 2013, and are reflected initially in customers' August billings.
- During the year, the District made approximately \$135,000 in unscheduled but necessary repairs to the ID4-11, Wilcox and ID5-5 wells.
- The income from operations for the fiscal year ended June 30, 2013, was \$190,285 compared with a loss from operations of \$218,645 for FY 2012.
- Cash and cash equivalents increased to \$1,434,126 at June 30, 2013, from \$871,863 at June 30, 2012.
- The change in net position for the fiscal year ended June 30, 2013, was a decrease of \$248,374 compared to a decrease in net position of \$258,207 for FY 2012.

More information about the overall analysis of the District's financial position and results of operations is provided in the following sections.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements accompanying the Management's Discussion and Analysis present the financial position, the results of operations, and cash flows using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities.

Statement of Net Position

The Statement of Net Position presents the District's financial position (assets and liabilities) as of June 30, 2013. Assets in excess of liabilities (Net Position) were \$12,520,618 and \$12,860,887 as of June 30, 2013 and 2012, respectively. In accordance with generally accepted accounting principles (GAAP), capital assets are recorded at historical cost. Net position is accumulated from revenues in excess of expenses, and contributed capital combined with the beginning balance of net position as presented in the Statement of Revenues, Expenses and Changes in Net Position.

**BORREGO WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the District's results of operations for the year ended June 30, 2013 and 2012. 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 income for the fiscal year ended June 30, 2013, \$190,285, is combined with net non-operating revenues and expenses of (\$69,310) and impairment of capital assets of (\$369,349) to arrive at the change of net position of (\$248,374). The decrease in net position is subtracted from beginning net position of \$12,860,887 and the prior period adjustment to arrive at the ending net position of \$12,520,618 as of June 30, 2013.

One of the most important questions asked about the District's finances is, "How has the District's position changed as the result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position present information about the District's activities that help answer this question. These two statements report the net position of the District and the changes to them. The District's net position, 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 position 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 Position

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

Borrego Water District's Net Position

	2013	2012	Variance	
			\$	%
Cash and investments	\$ 1,497,301	\$ 1,017,355	479,946	47.18%
Capital assets	14,943,502	14,827,998	115,504	0.78%
Other assets	1,004,992	824,251	180,741	21.93%
Total assets	<u>17,445,795</u>	<u>16,669,604</u>	776,191	4.66%
Current liabilities	297,870	318,531	(20,661)	-6.49%
Noncurrent liabilities	4,627,307	3,490,186	1,137,121	32.58%
Total liabilities	<u>4,925,177</u>	<u>3,808,717</u>	1,116,460	29.31%
Net position				
Net investment in capital assets	10,301,352	11,442,616	(1,141,264)	-9.97%
Unrestricted	2,219,266	1,418,271	800,995	56.48%
Total net position	<u>\$ 12,520,618</u>	<u>\$ 12,860,887</u>	(340,269)	-2.65%

**BORREGO WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Analysis of Revenues and Expenses

Borrego Water District's Revenues, Expenses and Changes in Net Position 2012/2013:

	2013	2012	Variance	
			\$	%
<b>OPERATING REVENUES:</b>				
Water revenue	\$ 2,365,553	\$ 2,136,794	228,759	10.71%
Sewer service charges	484,160	457,568	26,592	5.81%
Availability charges	176,209	340,828	(164,619)	-48.30%
Golf revenue	1,469	77,855	(76,386)	-98.11%
Other income	17,083	22,981	(5,898)	-25.66%
Total operating revenues	3,044,474	3,036,026	8,448	0.28%
<b>NONOPERATING REVENUES:</b>				
Property taxes	70,394	88,792	(18,398)	-20.72%
Investment income	145	255	(110)	-43.14%
Gain on sale of asset	20,609	-	20,609	100.00%
Grant income	-	31,881	(31,881)	-100.00%
Total non-operating revenues	91,148	120,928	(29,780)	-24.63%
<b>CAPITAL CONTRIBUTIONS</b>	-	18,000	(18,000)	100.00%
<b>TOTAL REVENUES:</b>	<b>3,135,622</b>	<b>3,174,954</b>	<b>(39,332)</b>	<b>-1.24%</b>
<b>OPERATING EXPENSES:</b>				
Water operations	1,171,561	1,031,970	139,591	13.53%
Sewer operations	217,420	283,719	(66,299)	-23.37%
Golf operations	14,564	95,229	(80,665)	-84.71%
Depreciation expense	617,677	584,166	33,511	5.74%
General and administrative	832,967	1,259,587	(426,620)	-33.87%
Total operating expenses	2,854,189	3,254,671	(400,482)	-12.30%
<b>NON OPERATING EXPENSES:</b>				
Impairment/loss on disposal of assets	369,349	4,146	365,203	8808.56%
Interest expense	143,966	167,856	(23,890)	-14.23%
Amortization expense	16,492	6,488	10,004	154.19%
Total non-operating expenses	529,807	178,490	351,317	196.83%
<b>TOTAL EXPENSES:</b>	<b>3,383,996</b>	<b>3,433,161</b>	<b>(49,165)</b>	<b>-1.43%</b>
Change in net position	(248,374)	(258,207)	9,833	-3.81%
TOTAL NET POSITION BEGINNING	12,860,887	13,119,094	(258,207)	-1.97%
Prior period adjustment	(91,895)	-	-	100.00%
<b>TOTAL NET POSITION ENDING</b>	<b>\$ 12,520,618</b>	<b>\$ 12,860,887</b>	<b>(340,269)</b>	<b>-2.65%</b>

**BORREGO WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

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

- Decrease in the availability charges due to continued delinquencies at Rams Hill.
- Decrease in golf revenue due to reclassification of CSD fees.
- Decrease in other income due to discontinuance of County/Antilles Wireless rental income.
- Total non-operating revenues down due to the shortage of grant funds.
- General and Administrative expense decreased primarily from cost cutting measures - decrease in salaries, insurance, employees benefits, R & M and GWM.
- Increase impairment/loss on disposal of assets due to discounting the cost of water credits.

**BUDGET HIGHLIGHTS**

Fiscal Year 2013 Actual vs. Fiscal Year 2013 Budget

	2013	2013	Variance	
	Actual	Budget	\$	%
Revenues:				
From operations	\$ 3,044,474	\$ 3,365,033	(320,559)	-9.53%
Nonoperating	91,148	68,174	22,974	33.70%
Total revenue	<u>3,135,622</u>	<u>3,433,207</u>	(297,585)	-8.67%
Expenses				
Water operations	1,171,561	1,628,169	(456,608)	-28.04%
Sewer operations	217,420	150,999	66,421	43.99%
Depreciation expense	617,677		617,677	100.00%
General and administrative	832,967	773,764	59,203	7.65%
Impairment of capital assets	369,349		369,349	100.00%
Other non-operating expenses	175,022	231,560	(56,538)	-24.42%
Total expenses	<u>3,383,996</u>	<u>2,784,492</u>	599,504	21.53%
Change in net position	<u>\$ (248,374)</u>	<u>\$ 648,715</u>	400,341	61.71%

- Borrego Water District does not budget for depreciation, but prefers to budget for actual capital assets using the internally generated 10 year Capital Improvement Budget.
- Impairment of capital assets increased due to discounting the cost of water credits.

**BORREGO WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

At the end of the fiscal year the District had a net investment in various categories of capital assets as shown in the following table:

Borrego Water District's Capital Assets

	2013	*2012	Variance	
			\$	%
Land and land improvements	\$ 882,054	\$ 992,229	(110,175)	-11.10%
Flood control facilities	4,319,604	4,319,604	-	0.00%
Sewer facilities	5,807,526	5,780,431	27,095	0.47%
Water facilities	10,271,334	10,617,816	(346,482)	-3.26%
Pipelines, wells and tanks	151,699	151,699	-	0.00%
General facilities	1,006,881	1,009,060	(2,179)	-0.22%
Telemetry	46,459	46,459	-	0.00%
Equipment and furniture	265,674	294,673	(28,999)	-9.84%
Vehicles	495,573	480,074	15,499	3.23%
Construction in progress	186,368	181,778	4,590	2.53%
Fallowed water credits	1,908,965	2,278,314	(369,349)	-16.21%
Water rights-ID #4	185,000	185,000	-	0.00%
Total assets	25,527,137	26,337,137	(810,000)	-3.08%
Less accumulated depreciation	(10,583,635)	(10,388,852)	(194,783)	-1.87%
Net capital assets	\$ 14,943,502	\$ 15,948,285	(1,004,783)	-6.30%

\*Beginning capital assets have been restated. See prior period adjustment note.

Debt Administration

On October 1, 2008, the District issued \$2,775,000 of 2008 Bonds while concurrently redeeming all of its outstanding 1997 and 1998 Certificates of Participation.

The bonds are payable in annual principal installments of \$25,000 to \$245,000 on October 1 of each year beginning 2014 through 2028. Interest is payable semi-annually on April 1 and October 1 at an interest rate of 6.000% per annum. The bonds 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 Installment Purchase Agreement are as follows:

**BORREGO WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Year Ending June 30,	Principal	Interest	Totals
2014	\$ 25,000	\$ 124,313	\$ 149,313
2015	135,000	120,713	255,713
2016	140,000	114,526	254,526
2017	145,000	108,113	253,113
2018	150,000	101,475	251,475
2019-2023	865,000	396,114	1,261,114
2024-2028	1,070,000	184,384	1,254,384
2029	245,000	-	245,000
Totals	<u>\$ 2,775,000</u>	<u>\$ 1,149,638</u>	<u>\$ 3,924,638</u>

**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 2013/2014 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.

These indicators were taken into consideration when adopting the District's budget for the fiscal year 2013/2014. 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 and continue efforts towards securing a sustainable water supply for the community.

Fiscal Year 2013 Actual vs. Fiscal Year 2014 Budget

	2014 Budget	2013 Actual	Variance	
			\$	%
<b>Revenues:</b>				
Operating Revenue	\$ 3,351,446	\$ 3,044,474	306,972	10.08%
Nonoperating	77,165	91,148	(13,983)	-15.34%
Total revenue	<u>3,428,611</u>	<u>3,135,622</u>	292,989	9.34%
<b>Expenses</b>				
Operating expenses	2,040,633	2,221,948	(181,315)	-8.16%
Depreciation	-	617,677	(617,677)	-100.00%
Impairment of capital assets	-	369,349	(369,349)	-100.00%
Other non operating expenses	219,313	175,022	44,291	25.31%
Total expenses	<u>2,259,946</u>	<u>3,383,996</u>	(1,124,050)	-33.22%
Change in net position	<u>\$ 1,168,665</u>	<u>\$ (248,374)</u>	1,417,039	570.53%

**BORREGO WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

**ECONOMIC FACTORS AND FUTURE YEAR'S BUDGET AND RATES (CONTINUED)**

- Borrego Water District does not budget for depreciation, but prefers to budget for actual capital assets using the internally generated 10 year Capital Improvement Budget.
- Impairment of capital assets increased due to discounting the cost of water credits.

**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 Jerry Rolwing, General Manager or Kim Pitman, Fiscal Officer at the Borrego Water District, 806 Palm Canyon Drive, Borrego Springs, California, 92004 or by telephone at (760) 767-5806.

**Borrego Water District**

**BORREGO WATER DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 1,434,126	\$ 871,863
Restricted cash and cash equivalents:		
Customer deposits	35,666	27,571
Accounts receivable:		
Water and sewer, net of allowance	498,117	413,073
Property taxes	372	3,478
Availability charges	51,934	78,070
Other receivables	4,541	17,211
Inventory	130,337	132,739
Prepaid expenses	43,008	41,218
Total current assets	2,198,101	1,585,223
Noncurrent assets:		
Water and sewer charges receivable	35,182	33,032
Debt issuance costs, net of amortization	98,942	105,430
Debt refunding costs, net of amortization	142,559	-
Fiduciary fund:		
Restricted cash and cash equivalents	27,509	117,921
Capital assets:		
Land	882,054	967,829
Construction in progress	186,368	181,778
Fallowed water credits	1,908,965	802,714
Water rights - ID 4	185,000	185,000
Capital assets being depreciated, net	11,781,115	12,690,677
Total noncurrent assets	15,247,694	15,084,381
Total assets	17,445,795	16,669,604
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	79,649	76,320
Accrued interest payable	56,310	64,195
Short-term compensated absences	50,336	83,226
Customer deposits	35,666	27,571
Current portion of note payable	75,909	67,219
Total current liabilities	297,870	318,531
Noncurrent liabilities:		
Compensated absences	33,557	54,102
Community Facilities District 2007-1 Bondholders	27,509	117,921
Notes payable, net of current portion	4,566,241	3,318,163
Total noncurrent liabilities	4,627,307	3,490,186
Total liabilities	4,925,177	3,808,717
<b>Net position:</b>		
Net investment in capital assets	10,301,352	11,442,616
Unrestricted	2,219,266	1,418,271
Total net position	\$ 12,520,618	\$ 12,860,887

The notes to the financial statements are an integral part of the statement.

**BORREGO WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>Operating revenues:</b>		
Water revenue	\$ 2,365,553	\$ 2,136,794
Sewer service charges	484,160	457,568
Availability charges	176,209	340,828
Golf revenue	1,469	77,855
Other income	17,083	22,981
Total operating revenues	<u>3,044,474</u>	<u>3,036,026</u>
<b>Operating expenses:</b>		
Water operations	1,171,561	1,031,970
Sewer operations	217,420	283,719
Golf operations	14,564	95,229
Depreciation	617,677	584,166
General and administrative	832,967	1,259,587
Total operating expenses	<u>2,854,189</u>	<u>3,254,671</u>
Income (loss) from operations	190,285	(218,645)
<b>Non-operating revenues (expenses):</b>		
Property taxes	70,394	88,792
Investment income	145	255
Grant income	-	31,881
Gain (loss) on disposal of assets	20,609	(4,146)
Interest expense	(143,966)	(167,856)
Amortization expense	(16,492)	(6,488)
Total non-operating revenues (expenses)	<u>(69,310)</u>	<u>(57,562)</u>
<b>Income before contributions/impairment</b>	120,975	(276,207)
<b>Capital contributions</b>	-	18,000
<b>Impairment of capital assets</b>	<u>(369,349)</u>	<u>-</u>
<b>Change in net position</b>	(248,374)	(258,207)
<b>Net position, beginning</b>	12,860,887	13,119,094
<b>Prior period adjustment</b>	<u>(91,895)</u>	<u>-</u>
<b>Net position, ending</b>	<u>\$ 12,520,618</u>	<u>\$ 12,860,887</u>

The notes to the financial statements are an integral part of the statement.

**BORREGO WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities:</b>		
Receipts from water and sewer customers	\$ 2,770,614	\$ 2,483,949
Receipts from availability charges	202,345	136,624
Receipts from golf course	1,469	77,855
Payments to suppliers and employees	(1,438,412)	(1,607,338)
Payments for general and administration	(906,342)	(793,595)
Payments for golf course	(14,564)	(95,229)
Other receipts	29,753	5,770
Net cash provided by operating activities	<u>644,863</u>	<u>208,036</u>
<b>Cash flows from financing activities:</b>		
Taxes received	73,500	88,184
Proceeds from Grants	-	131,750
Acquisition and construction of capital assets	(205,998)	(239,983)
Proceeds from sale of assets	603,524	8,325
Proceeds from debt issuance	(136,071)	118,387
Gain on disposal of assets	(20,609)	-
Principal paid on long-term debt	(77,158)	(44,676)
Change in long-term debt valuation	(160,074)	-
Interest payments on long-term debt	(151,851)	(150,200)
Community facilities district 2007-1 receipts and payments	(90,325)	(128,374)
Net cash provided by investing activities	<u>(165,062)</u>	<u>(216,587)</u>
<b>Cash flows from investing activities:</b>		
Interest received	145	255
Net cash provided from financing activities	<u>145</u>	<u>255</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	479,946	(8,296)
<b>Cash and cash equivalents at beginning of year</b>	<u>1,017,355</u>	<u>1,025,651</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,497,301</u>	<u>\$ 1,017,355</u>
<b>Reconciliation of change in net assets to net cash used by operating activities:</b>		
Operating income (loss) from operations	\$ 190,285	\$ (218,645)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	617,677	584,166
(Increase) decrease in accounts receivable	(82,894)	(126,534)
(Increase) decrease in other receivables	(38,806)	-
(Increase) decrease in inventories	2,402	(7,797)
(Increase) decrease in prepaid expenses	(1,790)	6,461
Increase (decrease) in accounts payable	3,329	(25,900)
Increase (decrease) in customer deposits	8,095	-
Increase (decrease) in short-term compensated absences	(53,435)	(3,715)
Net cash provided by operating activities	<u>\$ 644,863</u>	<u>\$ 208,036</u>
<b>Reconciliation to Balance Sheet</b>		
Cash	\$ 1,434,126	\$ 871,863
Restricted: Cash and Cash Equivalents	63,175	145,492
Net reconciliation to balance sheet	<u>\$ 1,497,301</u>	<u>\$ 1,017,355</u>

The notes to the financial statements are an integral part of the statement.

**BORREGO WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

A. Summary of significant accounting policies

Borrego Water District (District) accounts for its financial transactions in accordance with the policies and procedures of the Irrigation District Law, now Division 11 of the California State Water Code. The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criterion for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units", include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- it would be misleading or cause the financial statements to be incomplete to exclude another organization

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB statement.

2. Basis of accounting

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 of providing water to its customers on a continuing basis be financed or recovered primarily through user charges (water sales and services) or similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. 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 took place.

Operating revenues and expenses are generated and incurred through the water sales activities to the District's customers. Administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

3. Financial reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reporting.

**BORREGO WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

A. Summary of significant accounting policies (continued)

3. Financial reporting (continued)

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reporting.

GASB No. 34 and subsequent GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses, and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

The District's basic financial statements are also presented in conformance with the provisions of GASB Statement No. 63 (GASB 63), "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The objective of this Statement is to provide guidance to include two classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are required to be reported in a Statement of Net Position in a separate section following assets. Similarly, amounts reported as deferred inflows of resources are required to be reported in a Statement of Net Position in a separate section following liabilities. In addition, the totals of these two new classifications should be added to the total for assets and liabilities, respectively.

The District did not have any deferred inflows or outflows of resources at June 30, 2013. The adoption of this pronouncement resulted in a retroactive change in the term "net assets" being changed to "net position" throughout the financial statements.

4. Assets, liabilities, and equity

a. Deposits and investments

For purposes of the statement of cash flows, cash and cash equivalents consist of short-term highly liquid investments with maturities of ninety days or less from the date of purchase. These include cash on hand, cash held in the restricted assets accounts, and the Local Agency Investment Fund.

**BORREGO WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

A. Summary of significant accounting policies (continued)

The District's investment policy and state statutes authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit with national and state-licensed or chartered banks or federal or state savings and loan associations, money market and mutual funds whose portfolios consist of one or more of the foregoing investments, and the Local Agency Investment Fund.

State statutes require all deposits be insured or collateralized. Depositories holding public funds on deposit are required to maintain collateral in the form of a pool of securities with the agent of the depository having a market value of at least 10 to 50 percent in excess of the total amount of all public funds on deposit.

b. 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. At fiscal year ended June 30, 2013 and 2012, management has estimated an allowance for doubtful accounts for availability charges at \$665,171 and \$458,910, respectively. Management estimates all other receivables at June 30, 2013 and 2012, to be collectible.

c. Stores inventories and prepaid expenditures

Inventories are recorded using the purchase method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period.

d. Capital assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset class</u>	<u>Estimated useful lives</u>
Buildings	10-50
Water systems	10-50
Improvements of sites	7-25
Equipment	5-10

**BORREGO WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

A. Summary of significant accounting policies (continued)

e. Compensated absences

Accumulated unpaid employee vacation benefits and sick leave are recognized as accrued payroll liabilities in the Statement of Net Position. As of June 30, 2013 and 2012, the District had \$83,893 and \$137,328, respectively, of accrued vacation and sick leave.

f. Deferred revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

g. Interfund activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

h. Property taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

i. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

B. Compliance and accountability

1. Finance-related legal and contractual provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action taken</u>
None reported	Not applicable

**BORREGO WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**B. Compliance and accountability (Continued)**

**2. Deficit fund balance or fund net position of individual funds**

The following are funds having deficit fund balances or fund net positions at year end, if any, along with remarks which address such deficits:

<u>Fund name</u>	<u>Deficit amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**C. Cash and cash equivalents**

The summary of cash and cash equivalents is as follows at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash on hand and in banks:		
Restricted	\$ 35,666	\$ 27,571
Unrestricted	1,434,126	871,863
Fiduciary funds:		
Cash on hand and in banks	27,509	117,921
Total cash and cash equivalents	<u>\$ 1,497,301</u>	<u>\$ 1,017,355</u>

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized costs 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.

The summary which presents the amount of the District's deposits which are fully insured or collateralized with securities held by the District or its agent in the District's name (Category One), those deposits which are collateralized with securities held by the pledging financial institution's trust department, or agent in the District's name (Category Two), and those deposits which are not collateralized or are collateralized with securities held by the pledging financial institution, or its trust department, or agent, but not in the District's name (Category Three), is as follows at June 30, 2013 and 2012:

	<u>2013</u>				
	<u>Category One</u>	<u>Category Two</u>	<u>Category Three</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Deposits with					
Financial Institutions	<u>\$ 1,469,610</u>	<u>\$ 27,509</u>	<u>\$ -</u>	<u>\$ 1,497,119</u>	<u>\$ 1,017,173</u>

**BORREGO WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

C. Cash and cash equivalents (Continued)

2012					
	Category One	Category Two	Category Three	Total Bank Balance	Carrying Amount
Deposits with Financial Institutions	\$ 899,252	\$ 117,921	\$ -	\$ 1,017,173	\$ 1,497,119

D. Capital assets

A schedule of changes in capital assets and accumulated depreciation for the fiscal year ended June 30, 2013, is shown as follows:

	Balance* June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 992,229	\$ -	\$ (110,175)	\$ 882,054
Construction in progress	181,778	4,590	-	186,368
Fallowed water credits	2,278,314	-	(369,349)	1,908,965
Water rights - ID 4	185,000	-	-	185,000
Total capital assets, not being depreciated	3,637,321	4,590	(479,524)	3,162,387
Capital assets, being depreciated:				
Flood control facilities	4,319,604	-	-	4,319,604
Sewer facilities	5,780,431	52,868	(25,773)	5,807,526
Water facilities	10,617,816	133,040	(479,522)	10,271,334
Pipelines, wells, and tanks	151,699	-	-	151,699
General facilities	1,009,060	-	(2,179)	1,006,881
Telemetry system	46,459	-	-	46,459
Equipment and furniture	294,673	-	(28,999)	265,674
Vehicles	480,073	15,500	-	495,573
Total capital assets, being depreciated	22,699,815	201,408	(536,473)	22,364,750
Less accumulated depreciation	(10,388,852)	(607,256)	412,473	(10,583,635)
Total capital assets, being depreciated, net	12,310,963	(405,848)	(124,000)	11,781,115
Capital assets, net of depreciation	\$ 15,948,284	\$ (401,258)	\$ (603,524)	\$ 14,943,502

\* Beginning capital assets have been restated. See prior period adjustment note.

**BORREGO WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**D. Capital assets (continued)**

Changes in capital assets for the fiscal year ended June 30, 2012, were as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<b>Capital assets, not being depreciated:</b>				
Land	\$ 949,829	\$ 18,000	\$ -	\$ 967,829
Construction in progress	235,263	25,114	(78,599)	181,778
Fallowed water credits	792,714	10,000	-	802,714
Water rights - ID 4	185,000	-	-	185,000
<b>Total capital assets,     not being depreciated</b>	<b>2,162,806</b>	<b>53,114</b>	<b>(78,599)</b>	<b>2,137,321</b>
<b>Capital assets, being depreciated:</b>				
Flood control facilities	4,319,604	-	-	4,319,604
Sewer facilities	5,776,212	13,685	(9,466)	5,780,431
Water facilities	9,672,863	240,702	(14,379)	9,899,186
Pipelines, wells, and tanks	1,273,895	-	-	1,273,895
General facilities	1,009,060	-	-	1,009,060
Telemetry system	67,530	29,081	(67,530)	29,081
Equipment and furniture	341,989	-	(47,316)	294,673
Vehicles	480,074	-	-	480,074
<b>Total capital assets,     being depreciated</b>	<b>22,941,227</b>	<b>283,468</b>	<b>(138,691)</b>	<b>23,086,004</b>
Less accumulated depreciation	(9,937,381)	(584,166)	126,220	(10,395,327)
<b>Total capital assets, being depreciated, net</b>	<b>13,003,846</b>	<b>(300,698)</b>	<b>(12,471)</b>	<b>12,690,677</b>
<b>Capital assets, net of depreciation</b>	<b>\$ 15,166,652</b>	<b>\$ (247,584)</b>	<b>\$ (91,070)</b>	<b>\$ 14,827,998</b>

**E. Long-term obligations**

**1. Long-term obligation activity**

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the fiscal year ended June 30, 2013, are as follows:

	Balance* at June 30, 2012	Additions	Retirements	Balance at June 30, 2013	Amount due within one year
<b>Refunding Installment</b>					
Purchase	\$ 2,775,000	\$ -	\$ -	\$ 2,775,000	\$ 25,000
Viking Ranch Note	1,494,000	-	-	1,494,000	-
Rams Hill Note Payable	450,308	-	(77,158)	373,150	50,909
<b>Total long-term debt</b>	<b>\$ 4,719,308</b>	<b>\$ -</b>	<b>\$ (77,158)</b>	<b>\$ 4,642,150</b>	<b>\$ 75,909</b>

\* Beginning balances of long-term debt have been restated. See prior period adjustment note.

**BORREGO WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

E. Long-term obligations (continued)

2. Refunding Installment Purchase

On October 1, 2008, the District issued \$2,775,000 of 2008 Bonds while concurrently redeeming 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. No new funds were raised by the District. New Installment Purchase Agreements were executed, which will save the District approximately \$36,000 per year on debt service. The District reduced its aggregate debt service payments by \$312,755 over the next twenty (20) years and obtained an economic gain (difference between the present value of the old and new debt service payments) of \$259,110.

The bonds are payable in annual principal installments of \$25,000 to \$245,000 on October 1 of each year beginning 2013 through 2028. Interest is payable semi-annually on April 1 and October 1 at an interest rate of 6.000% per annum. The installment payments are a special obligation of the District payable solely from revenues of Improvement District No. 4.

The future debt service for the Installment Purchase Agreement is as follows:

Year Ending June 30,	Principal	Interest	Totals
2014	\$ 25,000	\$ 124,313	\$ 149,313
2015	135,000	120,713	255,713
2016	140,000	114,526	254,526
2017	145,000	108,113	253,113
2018	150,000	101,475	251,475
2019-2023	865,000	396,114	1,261,114
2024-2028	1,070,000	184,384	1,254,384
2029	245,000	-	245,000
Totals	<u>\$ 2,775,000</u>	<u>\$ 1,149,638</u>	<u>\$ 3,924,638</u>

3. Viking Ranch Note

On July 8, 2011, the District and Viking Ranch amended an agreement that had been originally signed October 22, 2010. The amended agreement called for Viking Ranch to sell to the District Parcel 2 and in the future Viking Ranch will make a charitable donation of Parcel 1 to the District. The amended agreement also calls for Viking Ranch to sell to the District 312.5 Agricultural-1 Water Credits. For both Parcel 2 and the 312.5 Agricultural-1 Water Credits, the District will provide to Viking Ranch a \$1.5 Million Note at 4.00% interest per annum, with \$6,000 due upon execution of the note, \$69,000 due upon transference of properties, and the remaining \$1.425 Million due in quarterly interest only payments for the first 5 years, at which that time, \$150,000 in principal will be due. The remaining balance of \$1.275 Million will be paid over the following 25 years with quarterly payments of \$20,229. The execution of this note for Parcel 2 will be completed in the 2013-2014 fiscal year with 100% certainty. Since Parcel 2 had not been transferred to the District as of June 30, 2013, a debt service agreement is not available.

**BORREGO WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

E. Long-term obligations (continued)

4. Rams Hill Note Payable

In July 2009 the District entered into an agreement to purchase a well and land from Rams Hill (formerly known as Montesorro). For consideration the District paid an initial amount of \$400,000 and issued a note that calls for ten (10) annual payments of \$70,000 at 5.00% interest per annum, commencing on July 1, 2010. In the event the District increases the water rate charged for water service the annual payments increase by the percentage amount equal to the difference between water rate for water service on August 1, 2009, and the new water rate.

The future debt service for the Rams Hill note payable is as follows:

Year Ending June 30,	Principal	Interest	Totals
2014	\$ 50,909	\$ 19,091	\$ 70,000
2015	53,514	16,486	70,000
2016	56,251	13,749	70,000
2017	59,129	10,871	70,000
2018	62,154	7,846	70,000
2019-2020	91,193	5,989	97,182
Totals	<u>\$ 373,150</u>	<u>\$ 74,032</u>	<u>\$ 447,182</u>

F. Operating leases

The District has entered into operating leases for office equipment and facility usage with lease terms in excess of one year. These agreements contain no purchase options. The agreements are non-cancelable leases. Future minimum lease payments are as follows:

Year ending June 30,	Lease payments
2014	\$ 15,439
2015	15,439
2016	1,651
2017	1,651
2018	1
2019-2023	5
2024-2028	5
2029-2031	3
Total future minimum lease payments	<u>\$ 34,194</u>

The District will receive no sublease rental revenues nor pay any contingent rentals associated with these leases. Rent expense for the fiscal year ended June 30, 2013, was \$18,046.

**BORREGO WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

G. Joint ventures (joint powers agreements)

The District participates in the following jointly governed organization under a joint power agreement (JPA):

California Water Agencies Joint Powers Insurance Authority (JPIA)

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.

The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

H. Employee retirement systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Classified employees are members of the California Public Employees Retirement System (CalPERS).

PERS:

Plan description

The District contributes to the California Public Employees Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions and state statute and District policies establish all other requirements. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information.

Funding policy

Participants are required to contribute 8% 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 4% to be paid by the employees. As of July 16, 2013, the District pays 3% leaving the remaining 5% to be paid by employees. The District makes the contributions required of the District's employees on their behalf and for their account. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate for the fiscal year ended June 30, 2013, was 22.734%. The contribution requirements of the plan members are established by state statute. The District contributions to CalPERS for the fiscal years ending June 30, 2013, 2012 and 2011, were \$137,511, \$142,009 and \$158,348, respectively, and equal 100% of the required contributions for each year.

I. Segment information

The 2008 Installment Purchase Agreement as described in Note E was issued to finance certain capital improvements in Improvement District Number 4. While water and wastewater services are accounted for in a single fund in these financial statements, the investors in the Installment Purchase agreement rely solely on the revenues of Improvement District Number 4 for repayment.

**BORREGO WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

I. Segment information (Continued)

Summary financial information for Improvement District Number 4 is presented in the supplementary information.

J. Prior Period Adjustment

A prior period adjustment, in the amount of \$91,895, is for various adjustments made to the beginning balances of certain accounts. The following accounts were adjusted:

Accounts receivable overstatement	\$ (34,758)
Viking Ranch Land understatement	24,400
Water Credits understatement	1,475,600
Viking Ranch Note understatement	(1,494,000)
Rams Hill Note overstatement	322,577
Capital assets overstatement	(386,189)
Accumulated depreciation overstatement	6,475
Accrued interest payable understatement	(6,000)
Total prior period adjustment	<u>\$ (91,895)</u>

K. Subsequent event

The District's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through August 29, 2013, which is the date the financial statements were available to be issued.

On August 22, 2013, the District and Viking Ranch finalized their agreement and Viking Ranch transferred to the District, Parcel 2 of the agreement that was identified in Note E.

**BORREGO WATER DISTRICT**  
**SUPPLEMENTARY INFORMATION SECTION**  
**JUNE 30, 2013**

**BORREGO WATER DISTRICT  
ORGANIZATION  
JUNE 30, 2013**

The Board of Directors for the fiscal year ended June 30, 2013, was comprised of the following members:

Name	Office	Term	Term expires
Beth Hart	President	4 Years	December 4, 2014
Lyle Brecht	Vice President	4 Years	December 4, 2014
Marshal Brecht	Treasurer/Secretary	4 Years	December 4, 2014
Lee Estep	Director	4 Years	December 2, 2016
Ray Delahay	Director	4 Years	December 2, 2016

**Administration**

Name	Position
Jerry Rolwing	General Manager
Kim Pitman	Administration Manager

**BORREGO WATER DISTRICT  
ASSESSED VALUATION  
JUNE 30, 2013**

The assessed valuation of the Borrego Water District at June 30, 2013, is as follows:

Assessed valuation

Secured property	<u>\$ 343,174,793</u>
Total assessed valuation	<u><u>\$ 343,174,793</u></u>

**BORREGO WATER DISTRICT  
IMPROVEMENT DISTRICT NUMBER 4  
CONDENSED STATEMENT OF NET POSITION  
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>Assets:</b>		
Current assets	\$ 1,514,780	\$ 1,161,606
Capital assets, net of depreciation	3,009,992	3,235,017
Other assets	<u>241,501</u>	<u>105,430</u>
Total assets	4,766,273	4,502,053
<b>Liabilities:</b>		
Current liabilities	134,371	131,458
Long-term liabilities	<u>2,775,000</u>	<u>2,622,437</u>
Total liabilities	2,909,371	2,753,895
<b>Net position:</b>		
Net investment in capital assets	234,992	612,580
Unrestricted	<u>1,621,910</u>	<u>1,135,578</u>
Total net position	<u>\$ 1,856,902</u>	<u>\$ 1,748,158</u>

**BORREGO WATER DISTRICT  
IMPROVEMENT DISTRICT NUMBER 4  
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>Operating revenues:</b>		
Water revenue	\$ 1,661,701	\$ 1,526,066
Other income	90,848	7,422
Total operating revenues	<u>1,752,549</u>	<u>1,533,488</u>
<b>Operating expenses:</b>		
Water operations	663,289	626,077
Depreciation	169,525	154,976
General and administrative	535,829	654,723
Total operating expenses	<u>1,368,643</u>	<u>1,435,776</u>
Gain from operations	383,906	97,712
<b>Non-operating revenues (expenses):</b>		
Property taxes	41,919	34,752
Investment income	83	128
Grant income	-	15,941
Interest expense	(124,875)	(134,879)
Amortization expense	(16,492)	(6,488)
Total non-operating revenues (expenses)	<u>(99,365)</u>	<u>(90,546)</u>
<b>Change in net position</b>	284,541	7,166
<b>Net position, beginning</b>	1,748,158	1,740,992
<b>Prior period adjustment</b>	<u>(175,797)</u>	<u>-</u>
<b>Net position, ending</b>	<u>\$ 1,856,902</u>	<u>\$ 1,748,158</u>

**BORREGO WATER DISTRICT  
IMPROVEMENT DISTRICT NUMBER 4  
CONDENSED STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Net cash provided by operating activities	\$ 461,251	\$ 252,688
Net cash provided by financing activities	(159,747)	(160,912)
Net cash provided by investing activities	<u>-</u>	<u>128</u>
Net increase (decrease) in cash and cash equivalents	301,504	91,904
Cash and cash equivalents, beginning	<u>868,566</u>	<u>776,662</u>
Cash and cash equivalents, ending	<u>\$ 1,170,070</u>	<u>\$ 868,566</u>

**BORREGO WATER DISTRICT**  
**OTHER INDEPENDENT AUDITORS' REPORTS SECTION**  
**JUNE 30, 2013**



Hosaka, Rotherham & Company  
Certified Public Accountants

James A. Rotherham, CPA  
CEO & Managing Partner

Roy T. Hosaka, CPA  
Retired

James C. Nagel, CPA  
Retired

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

Board of Directors  
Borrego Water District  
Borrego Springs, California

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Minimum Auditing requirements for California Special Districts* the financial statements of Borrego Water District, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements.

**Internal Control Over Financial Reporting**

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

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

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

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

**Page 2**

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Hosaka, Rotherham & Company*

San Diego, California  
August 29, 2013

**BORREGO WATER DISTRICT**  
**FINDINGS AND RECOMMENDATIONS SECTION**  
**JUNE 30, 2013**

**BORREGO WATER DISTRICT  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**A. Summary of auditors' results**

1. Financial statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified?        Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?        Yes   X   None Reported

Noncompliance material to financial statements noted?        Yes   X   No

2. Federal awards

Internal control over major programs:

One or more material weaknesses identified?        Yes   N/A   No

One or more significant deficiencies identified that are not considered to be material weaknesses?        Yes   N/A   None Reported

Type of auditors' report issued on compliance for major programs:       N/A      

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?        Yes   N/A   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

*The District did not have over \$500,000 in Federal Expenditures.*

Dollar threshold used to distinguish between type A and type B programs:       N/A      

Auditee qualified as low-risk auditee?        Yes   N/A   No

**B. Financial statement findings**

None

**C. Federal award findings and questioned costs**

None

**BORREGO WATER DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2013**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None	N/A	N/A