

BORREGO WATER DISTRICT FINANCIAL SITUATION

**Borrego Water District
Schedule of Cash and Investment Activity
For the Period July 1 , 2007 to December 31, 2010**

Cash and Investments at July 1, 2007	<u>\$ 6,530,581 *</u>
Net cash from operating activities	(606,393)
Net cash from noncapital financing activities	30,060
Cash used for capital improvements	(4,194,780)
Cash used for fallowed water credits	(948,214)
Cash used for principal and interest on long term debt	(3,776,915)
Cash received from issuance of long term debt	3,315,123
Cash received from investment earnings	415,529
Net cash and investments (used)	<u>(5,765,590)</u>
Cash and Investments at December 31, 2010	<u><u>\$ 764,991 *</u></u>

PRELIMINARY DRAFT
FOR DISCUSSION
PURPOSES ONLY

*Does not include cash and investments held by the District for custodial purposes.

This Special Report was requested by a Motion approved by the Borrego Water District Board on January 26, 2011.

Unaudited; see Diehl, Evans & Company, LLP accompanying independent accountants' compilation report.

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Upon entering office last December, the new BWD board members learned that the previous board and its general manager had:

- (a) spent about \$5,700,000 of the \$6,500,000 in cash that the District had accumulated over the past 20 years;
- (b) obligated the District to pay another \$660,000 by June 30, 2011;
- (c) in the few weeks before the new members took office, promised to obligate an additional \$7,500,000 in District revenues from ratepayers' payments for water and sewer services over the next 30-years.

As a result of these actions, the District now faces a cash crunch because its operations do not presently generate enough money to cover these expenditures and potential obligations.

The new board also learned that, because of its financial situation, the District can no longer borrow money for capital improvements. This is a serious situation and must be addressed immediately.

The longer it takes to correct the District's cash flow imbalance, the longer it will take to regain creditworthiness and ability to borrow.

The new board has acted swiftly to assess damage to the District's financial condition, improve the cash flow situation, and retain appropriate financial, legal, accounting, and engineering advisors to develop a comprehensive plan to correct the District's critical financial situation. While this work proceeds, preliminary results from the board's Due Diligence Committee suggest that:

- a) The District no longer has adequate reserves for emergencies and unforeseen events. The Committee believes that it is prudent and necessary to accumulate adequate reserves for such contingencies as quickly as possible.
- b) The current financial situation is not something that the District can solve by cutting expenses. It is therefore prudent to explore ways of raising revenue to restore essential reserves, and to fund capital projects necessary to prevent frequent, prolonged and unplanned service interruptions. Additional capital is also required to address the basin's overdraft.
- c) There is a significant probability that in order to meet the needs of the community for water there will be a rate increase.