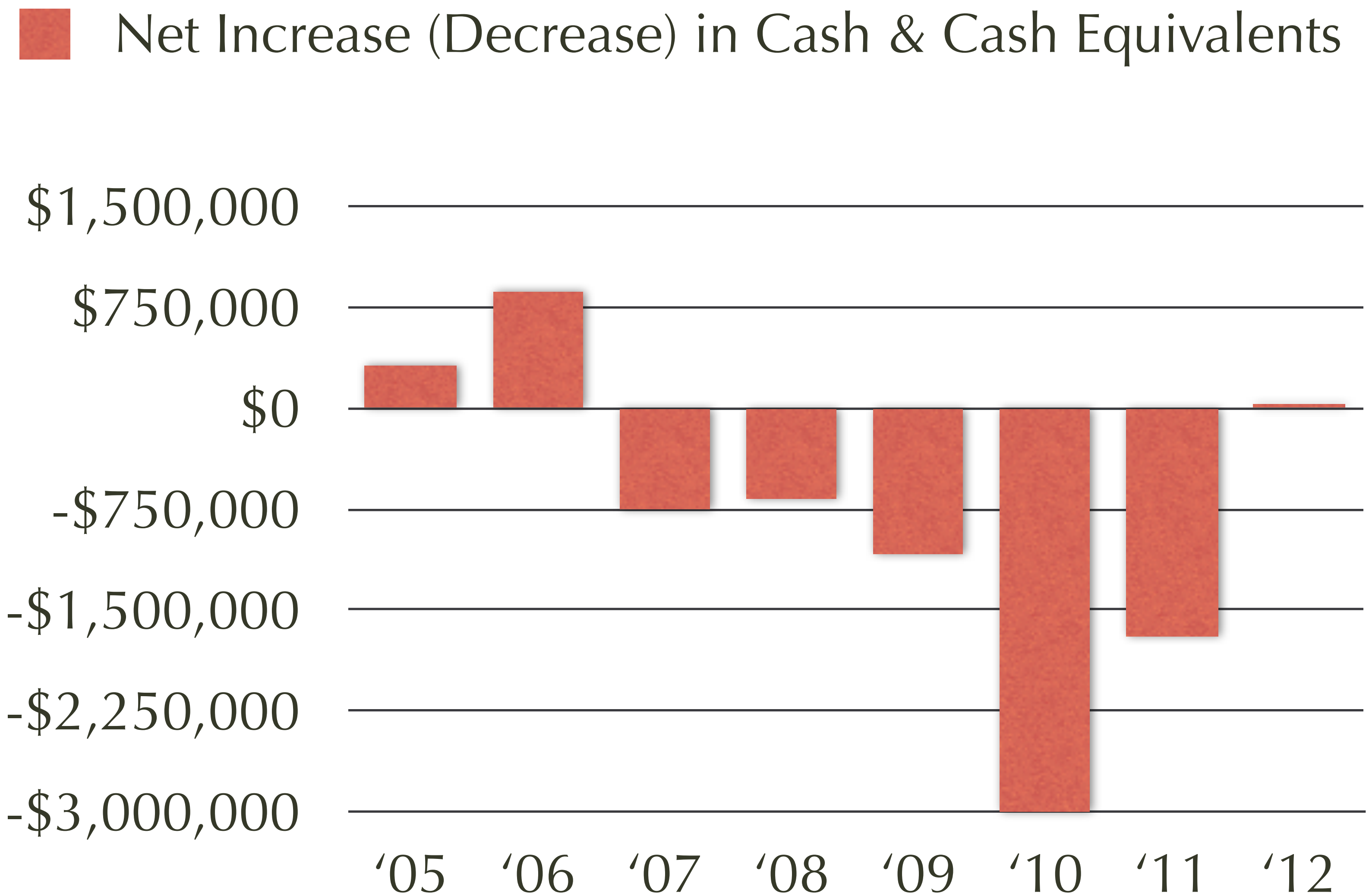

The revenue increase for FY 2012 (July 1, 2011 - June 30, 2012) was not imposed to pay for salaries or other operations and maintenance expenses (O&M expenses). It was levied to pay only for necessary capital improvements and ground water management since these non-O&M expenses could be paid neither from existing cash reserves nor new debt as in the past.

For FY 2012, the District is forecasting having a balanced budget, meaning we will have the same amount of cash at the end of this fiscal year that we had at the beginning of the year.

Our goal is to accumulate additional cash so that the District will be credit worthy to borrow $6-$7 million for Capital Improvements by FY 2016/2017 and to insure the District's ability to address any emergency that may occur and restore service in a timely fashion. A rate increase for FY 2013 (July 1, 2012 - June 30, 2013) is required to build these necessary cash reserves.

FINANCIAL HIGHLIGHTS (excerpt from the District's FY 2011 audited financial statements)

During the fiscal year ended June 30, 2011, the following events impacted, or have the potential to impact, the finances of the District:

- In January 2011, the District's Board of Directors canceled health insurance benefits for Directors. Such benefits had cost the District $38,477 in the previous 12-months. If all 5 directors had insurance for all of 2011 this cost would have been $61,669.
- In January 2011, the District's Board of Directors received a report from the District's investment banking firm, Stern Brothers & Co.. The report informed the Board that investors who had previously indicated a potential interest in providing the District a $1,500,000 loan for water supply-related infrastructure had withdrawn their offer. Also, due to the District's financial performance in the prior two fiscal years, its current cash position, and its projected cash flow from operations for FY 2011, Stern Brothers believed the District was no longer creditworthy to assume further debt.
- In February 2011, the District's Board of Directors commissioned an analysis from its auditors, White Nelson Diehl Evans LLP, concerning the status of the District's cash reserves. The results of the analysis indicated that the District's cash reserves had declined from $6,530,581 at July 1, 2007 to $764,991 at December 31, 2010.
- In May 2011, the District's Board of Directors declined to exercise a $150,000 option agreed to by the previous Board in November 2010 to purchase 160 acres of palms and 40 acres of citrus for fallowing, plus two wells from the Cocopah Nurseries, Inc. for $2,500,000.
- In June 2011, the District's Board of Directors held a public hearing as required by California's Proposition 218 process. The Board approved the rate increases as published for FY 2012 through FY 2016 as a majority of protest votes were not received by the end of the public hearing. The approved maximum rate increase for each of these fiscal years are approximately 30%, 30%, 10%, 10%, 5% above the prior year's base rate and commodity rate for both water and sewer services averaged across all service connections. The new rates for FY 2012 went into effect July 1, 2011.
- Cash and cash equivalents were lower than last year by $1,695,187 due primarily to the loss from operating activities for the year and the expenditure of cash reserves for capital projects.
- Net assets were lower than last year by $2,813,340 due in part to the loss from operating activities for the year and a loss on the disposal of previously capitalized assets.

More information about the overall analysis of the District's financial position and results of operations is provided in the District's audited financial report for FY 2011 available at the District's web site at http://www.borregowd.org/Budget.php.