

**BORREGO WATER DISTRICT**

**FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT BY INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**JUNE 30, 2009**

JUNE 30, 2009

	<u>Page Number</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2 - 8
Basic Financial Statements:	
Statement of Net Assets	9 - 10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to Financial Statements	13 – 27



**DIEHL, EVANS & COMPANY, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

A PARTNERSHIP INCLUDING ACCOUNTANCY CORPORATIONS

2965 ROOSEVELT STREET  
CARLSBAD, CALIFORNIA 92008-2389  
(760) 729-2343 • FAX (760) 729-2234  
www.diehlevans.com

\*PHILIP H. HOLTkamp, CPA  
\*THOMAS M. PERLOWSKI, CPA  
\*HARVEY J. SCHROEDER, CPA  
KENNETH R. AMES, CPA  
WILLIAM C. PENTZ, CPA  
MICHAEL R. LUDIN, CPA  
CRAIG W. SPRAKER, CPA  
NITIN P. PATEL, CPA  
ROBERT J. CALLANAN, CPA

\* A PROFESSIONAL CORPORATION

December 2, 2009

**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, 2009, 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, 2009, 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 supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

*Diehl, Evans and Company, LLP*

## **BORREGO WATER DISTRICT**

---

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fiscal year ended June 30, 2009

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, 2009. 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's net assets increased from \$16,204,135 at June 30, 2008 to \$16,761,856 at June 30, 2009.
- Revenues before capital contributions for the year decreased to \$3.0 million or 7.91% from the prior year, while total expenses increased to \$3.5 million or 12.34%.
- The Local Agency Formation Commission (LAFCO) approved the consolidation of the Borrego Springs Park Community Services District (BSPCSD) with the Borrego Water District on February 10, 2009. The area comprised of the old BSPCSD is now identified as ID #5 of the Borrego Water District.

#### **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 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, 2009. Assets in excess of liabilities (Net Assets) were \$16,761,856 and \$16,204,135 as of June 30, 2009 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, 2009. 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. interest income, investment income, interest expense, etc. The operating loss for the year ended June 30, 2009 of (\$526,511) is combined with net non operating expense of (\$5,585) and capital contributions of \$1,089,817 to arrive at the change in net assets of \$557,721. The increase in net assets is added to beginning net assets of \$16,204,135 to arrive at the ending net assets of \$16,761,856 as of June 30, 2009.

Excluding depreciation, which is a noncash expense, the District had income from operations of \$7,586.

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 years' 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

See accompanying independent auditors' report.

**BORREGO WATER DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

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

	2009	2008	Change	
			\$	%
Cash and investments	\$ 5,718,997	\$ 6,802,736	\$ (1,083,739)	-15.93
Capital assets	13,780,502	12,394,176	1,386,326	11.19
Other assets	<u>1,665,301</u>	<u>1,673,007</u>	<u>(7,706)</u>	<u>-0.01</u>
Total assets	<u>21,164,800</u>	<u>20,869,919</u>	<u>294,881</u>	<u>1.41</u>
Current liabilities	467,161	501,742	(34,581)	-6.89
Noncurrent liabilities	<u>3,935,783</u>	<u>4,164,042</u>	<u>(228,259)</u>	<u>-5.48</u>
Total liabilities	<u>4,402,944</u>	<u>4,665,784</u>	<u>(262,840)</u>	<u>-5.63</u>
Net assets				
Invested in capital assets net of related debt	11,188,078	9,484,826	1,703,252	17.96
Restricted	187,887	747,245	(559,358)	-74.86
Unrestricted	<u>5,385,891</u>	<u>5,972,064</u>	<u>-586,173</u>	<u>-9.82</u>
Total net assets	<u>\$ 16,761,856</u>	<u>\$ 16,204,135</u>	<u>\$ 557,721</u>	<u>3.44</u>

- The Cash and Investments variance is mainly due to a decrease of \$1 million in deposits with LAIF and financial institutions, primarily due to the activity in the Capital Projects Reserve Program, which totaled \$890,505\* and is detailed as follows:

Water Conservation:	\$175,186
Sustainable Water:	\$368,090
New Development Engineering:	\$ 60,694
Water Distribution System Improvements:	\$ 412
New Production Wells & Upgrades:	\$ 6,820
Storage Tanks:	\$ 8,903
Sewer System Improvements:	\$ 42,928
Vehicles/Rolling Stock:	\$ 25,420
Buildings/Structures:	\$ 21,970
Office/Engineering/Administration:	\$ 32,000
Groundwater Management Program:	\$148,082

\*Expenses to date of \$246,000 will be funded by Grants & Loan funds that the District has either received or applied for. Furthermore it is expected that all engineering costs for Clark Dry Lake, Wilcox Reservoir, Indian Head Reservoir, Wilcox lift station and related transmission lines will be reimbursed with the I Bank Loan & proposed USDA Grant/Loan.

**BORREGO WATER DISTRICT****MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

- The Capital Assets increase is primarily the result of the consolidation of Borrego Springs Park Community Services District with Borrego Water District which resulted in the acquisition of water/sewer facilities, prior to depreciation, of \$1.28 million.
- The refinancing of 1997 & 1998 Certificates of Participation resulted in the decrease of noncurrent liabilities and the reduction of Restricted Net Assets.
- Investment in capital assets net of related debt increased primarily due to the acquisition of the assets of Borrego Springs Park Community Services District, (ID #5).

Analysis of Revenues and Expenses

## Borrego Water District's Revenues, Expenses and Changes in Net Assets

	2009	2008	Change	
			\$	%
<b>OPERATING REVENUES:</b>				
Water revenue	\$ 2,135,264	\$ 2,342,469	\$ (207,205)	-8.85
Sewer service charges	317,325	292,037	25,288	8.66
Availability charges	316,773	310,460	6,313	2.03
Other income	<u>85,684</u>	<u>51,712</u>	<u>33,972</u>	<u>65.69</u>
Total operating revenues	<u>2,855,046</u>	<u>2,996,678</u>	<u>(141,632)</u>	<u>-4.73</u>
<b>OPERATING EXPENSES:</b>				
Water operations	1,337,750	865,933	471,817	54.49
Sewer operations	116,597	159,269	(42,672)	-26.79
Depreciation expense	534,097	458,992	75,105	16.36
General and administrative	<u>1,393,113</u>	<u>1,459,446</u>	<u>(66,333)</u>	<u>-4.55</u>
Total operating expenses	<u>3,381,557</u>	<u>2,943,640</u>	<u>437,917</u>	<u>14.88</u>
Operating income (loss)	<u>(526,511)</u>	<u>53,038</u>	<u>(579,549)</u>	<u>-1,092.71</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Property taxes	32,124	16,600	15,524	93.52
Investment income	101,572	236,032	(134,460)	-56.97
Gain on sale of asset	5,115	1,800	3,315	184.17
Interest expense	(137,329)	(187,559)	(50,230)	-26.78
Amortization expense	<u>(7,067)</u>	<u>(7,451)</u>	<u>(384)</u>	<u>-5.15</u>
Total nonoperating revenues (expenses)	<u>(5,585)</u>	<u>59,422</u>	<u>(65,007)</u>	<u>-109.40</u>
Income before capital contributions (532,096)		112,460	(644,556)	-573.14
<b>CAPITAL CONTRIBUTIONS</b>	<u>1,089,817</u>	<u>1,128,070</u>	<u>(38,253)</u>	<u>3.39</u>
Change in net assets	557,721	1,240,530	(682,809)	-55.04
<b>TOTAL NET ASSETS, BEGINNING</b>	<u>16,204,135</u>	<u>14,963,605</u>	<u>1,240,530</u>	<u>8.29</u>
<b>TOTAL NET ASSETS, ENDING</b>	<u>\$ 16,761,856</u>	<u>\$ 16,204,135</u>	<u>\$ 557,721</u>	<u>3.44</u>

See accompanying independent auditors' report.

**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.

- Other income increased due to the acquisition of the Borrego Springs Park Community Services District's, Club Circle Golf receipts.
- Water operations expense increased primarily due to the acquisition of Borrego Springs Park Community Services District, (ID #5)
- Sewer operations expense decreased due to the decrease of engineering and Maintenance and Repairs costs.
- Depreciation expense increased primarily due to the acquisition of the assets of Borrego Springs Park Community Services District, (ID #5).
- Property Taxes increased due to property taxes assessed to the Borrego Springs Park Community Services District, (ID #5).
- Investment income decreased due to lower interest rates received during the fiscal year ended June 30, 2009.
- Interest expense decreased due to the refinancing of 1997 & 1998 Certificates of Participation.

**BUDGET HIGHLIGHTS**

Fiscal Year 2009 Actual vs. Fiscal Year 2009 Budget

	<u>2009 Actual</u>	<u>2009 Budget</u>	<u>Variance</u>
Revenues:			
From operations	\$ 2,855,046	\$ 2,831,010	\$ 24,036
Nonoperating	<u>138,811</u>	<u>261,467</u>	<u>(122,656)</u>
Total revenue	<u>2,993,857</u>	<u>3,092,477</u>	<u>(98,620)</u>
Expenses:			
Water operations	1,337,750*	895,964	441,786
Sewer operations	116,597	153,178	(36,581)
Depreciation expense	534,097	470,000	64,097
General and administrative	1,393,113	1,250,000	143,113
Nonoperating expenses	<u>144,396</u>	<u>227,000</u>	<u>(82,604)</u>
Total expenses	<u>3,525,953</u>	<u>2,996,142</u>	<u>529,811</u>
Capital Contributions	<u>1,089,817</u>	<u>1,913,000</u>	<u>(823,183)</u>
Change in net assets	<u>\$ 557,721</u>	<u>\$ 2,009,335</u>	<u>\$ (1,451,614)</u>

\*\$341,309 is a result of recasting capital program expenditures as operating costs.

## **BORREGO WATER DISTRICT**

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

#### **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

	Fiscal Year Ended		Change	
	2008	2009	\$	%
Land and land improvements	\$ 908,323	\$ 909,829	\$ 1,506	.17
Flood control facilities	4,319,604	4,319,604	-	-
Sewer facilities	4,754,797	5,553,464	798,667	16.80
Water facilities	7,193,042	8,160,604	967,562	13.45
Pipelines, wells and tanks	1,277,812	1,273,895	(3,917)	-.31
General facilities	973,517	976,276	2,759	.28
Telemetry system	67,530	67,530	-	-
Equipment and furniture	248,745	338,448	89,703	36.06
Vehicles	377,706	456,969	79,263	20.99
Construction in progress	<u>223,551</u>	<u>537,715</u>	<u>314,164</u>	<u>140.53</u>
	20,344,627	22,594,334	2,249,707	11.06
Less accumulated depreciation	<u>(7,950,451)</u>	<u>(8,813,832)</u>	<u>863,381</u>	<u>10.86</u>
Net capital assets	<u>\$ 12,394,176</u>	<u>\$ 13,780,502</u>	<u>\$ 1,386,326</u>	<u>11.19</u>

The major addition to the District's Capital Assets was the acquisition of the Borrego Springs Park Community Services District's assets through the consolidation of the Districts.

##### **DEBT ADMINISTRATION**

On October 1, 2008, the District issued \$2,775,000 of 2008 Bonds while concurrently redeeming all of its outstanding 1997 & 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. Total net present value savings for the District was \$259,110.

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.

**BORREGO WATER DISTRICT**

---

**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

The annual requirements to amortize the Installment Purchase Agreement are as follows:

<u>For the Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ -	\$ 124,875	\$ 124,875
2011	-	124,875	124,875
2012	-	124,875	124,875
2013	-	124,875	124,875
2014	25,000	124,312	149,312
2015-2019	730,000	539,325	1,269,325
2020-2024	905,000	356,288	1,261,288
2025-2029	<u>1,115,000</u>	<u>129,712</u>	<u>1,244,712</u>
Totals	<u>\$2,775,000</u>	<u>\$ 1,649,137</u>	<u>\$ 4,424,137</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 2009/2010 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 2009/2010 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, 2010.

The District adopted a Water Conservation Program. Water reducing incentives began in the fiscal year ended June 30, 2008 and Tiered Water Rates commenced in August, 2009.

These indicators were taken into consideration when adopting the District’s budget for the fiscal year 2009/2010. 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.

**BORREGO WATER DISTRICT**

---

**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

Fiscal Year 2009 Actual vs. Fiscal Year 2010 Budget

	2009	2010	Change	
	<u>Actual</u>	<u>Budget</u>	<u>\$</u>	<u>%</u>
Revenues:				
Operating revenue	\$ 2,855,046	\$ 3,159,701	\$ 304,655	10.67
Nonoperating revenue	<u>138,811</u>	<u>121,200</u>	<u>(17,611)</u>	<u>-12.69</u>
Total revenues	<u>2,993,857</u>	<u>3,280,901</u>	<u>287,044</u>	<u>9.59</u>
Expenses:				
Depreciation expense	534,097	520,000	(14,097)	-2.64
Other operating expenses	2,847,460	2,636,026	(211,434)	-7.43
Nonoperating expenses	<u>144,396</u>	<u>124,875</u>	<u>(19,521)</u>	<u>-13.52</u>
Total expenses	<u>3,525,953</u>	<u>3,280,901</u>	<u>(245,052)</u>	<u>-6.95</u>
Capital Contributions	<u>1,089,817</u>	<u>100,000</u>	<u>(989,817)</u>	<u>-90.82</u>
Changes in net assets	<u>\$ 557,721</u>	<u>\$ 100,000</u>	<u>\$ (457,721)</u>	<u>-82.07</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, 2009**ASSETS**

## Current Assets:

Cash and cash equivalents (Notes 1 and 2)	\$	4,076,552
Restricted cash and cash equivalents (Notes 1 and 2):		
Customer deposits		165,399
Accounts receivable, net of allowance (Note 1):		
Water and sewer charges		311,067
Interest		16,028
Property taxes		2,617
Availability charges		26,947
Other		23,604
Inventories (Note 1)		119,009
Prepaid expenses		<u>38,020</u>
 Total Current Assets		 <u>4,779,243</u>

## Noncurrent Assets:

Debt issuance costs, net of amortization		<u>124,894</u>
 Fiduciary fund:		
Restricted cash and cash equivalents (Notes 1 and 2)		<u>1,289,159</u>
 Restricted cash and cash equivalents (Notes 1, 2 and 10)		<u>187,887</u>
 Capital assets not being depreciated (Notes 1 and 3):		
Land		909,829
Construction in progress		537,715
Depreciable capital assets, net of accumulated depreciation		<u>12,332,958</u>
 Total capital assets, net of accumulated depreciation		 <u>13,780,502</u>
 Other Assets:		
Fallowed water credits (Note 11)		743,115
Water rights - Well 12		75,000
Water rights - ID4		<u>185,000</u>
 Total Other Assets		 <u>1,003,115</u>
 Total Noncurrent Assets		 <u>16,385,557</u>

Total Assets		<u>21,164,800</u>
--------------	--	-------------------

(continued)

**BORREGO WATER DISTRICT**

(continued)

STATEMENT OF NET ASSETS  
JUNE 30, 2009**LIABILITIES**

## Current Liabilities:

## Unrestricted:

Accounts payable	\$	192,992
Compensated absences (Note 4)		65,552
Retirement agreement (Note 4)		12,000
Accrued interest payable on installment purchase agreement		31,218

## Restricted:

Customer deposits		<u>165,399</u>
-------------------	--	----------------

Total Current Liabilities 467,161

## Noncurrent Liabilities:

Compensated absences (Note 4) 54,200

## Fiduciary fund (Note 5):

Amount payable to community facilities dist 2007-1 bondholders 1,289,159

Installment purchase agreement (Note 4): 2,592,424

Total Noncurrent Liabilities 3,935,783

Total Liabilities 4,402,944

**NET ASSETS**

Invested in capital assets, net of related debt 11,188,078

Restricted for capital projects (Note 10) 187,887

Unrestricted (Note 6) 5,385,891

Total Net Assets \$ 16,761,856

**BORREGO WATER DISTRICT**

---

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2009**OPERATING REVENUES**

Water revenue	\$ 2,135,264
Sewer service charges	317,325
Availability charges	316,773
Other income	<u>85,684</u>
Total Operating Revenues	<u>2,855,046</u>

**OPERATING EXPENSES**

Water operations	1,337,750
Sewer operations	116,597
Depreciation expense	534,097
General and administrative	<u>1,393,113</u>
Total Operating Expenses	<u>3,381,557</u>
Operating Income (Loss)	<u>(526,511)</u>

**NONOPERATING REVENUES (EXPENSES)**

Property taxes	32,124
Investment income	101,572
Gain on sale of asset	5,115
Interest expense	(137,329)
Amortization expense	<u>(7,067)</u>

Total Nonoperating Revenues (Expenses) (5,585)

Income (Loss) before capital contributions (532,096)

Capital contributions 1,089,817

Change in Net Assets 557,721

**TOTAL NET ASSETS, BEGINNING** 16,204,135

**TOTAL NET ASSETS, ENDING** \$ 16,761,856

**BORREGO WATER DISTRICT****STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2009****CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from water and sewer customers	\$ 2,470,458
Receipts from availability charges	310,159
Payments for water purchases	(84,134)
Payments to suppliers	(424,545)
Payments to employees	(1,145,195)
Payments for general and administration	(1,090,370)
Other receipts	<u>105,648</u>
Net Cash Provided (Used) by Operating Activities	<u>142,021</u>

**CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES**

Taxes received	31,775
Deposits received	(5,825)
Retirement agreement payments	(36,000)
Cash receipts from CSD annexation	<u>175,200</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>165,150</u>

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

Acquisition and construction of capital assets	(974,722)
Proceeds on sale of assets	5,115
Principal paid on long-term debt	(2,975,000)
Proceeds from debt issuance	2,775,000
Premium payments and issuance costs on long-term debt	(173,609)
Other capital financing expenses paid	(1,952)
Interest payments on long-term debt	(175,392)
Fiduciary fund receipts and payments, net	<u>5,222</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,515,338)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received	<u>124,429</u>
Net Cash Provided (Used) by Investing Activities	<u>124,429</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,083,739)
Cash and Cash Equivalents, Beginning of the Year	<u>6,802,736</u>
Cash and Cash Equivalents, End of the Year	<u>\$ 5,718,997</u>

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

Operating income	\$ (526,511)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	534,097
Changes in operating assets and liabilities:	
(Increase) Decrease in accounts receivable, water and sewer charges	37,833
(Increase) Decrease in availability charges receivable	(6,614)
(Increase) Decrease in inventories	240
(Increase) Decrease in prepaid expenses	(2,566)
Increase (Decrease) in accounts payable	81,054
Increase (Decrease) in compensated absences	<u>24,488</u>
Net Cash Provided by Operating Activities	<u>\$ 142,021</u>

**Noncash capital financing activities:**

Capital assets of \$958,621 were acquired through capital contributions from the annexation of the Borrego Springs Park Community Services District

June 30, 2009

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, 2009, the board consisted of:

Katherine King – President  
Steven Smiley - Vice President  
Rita Andersen - Secretary/Treasurer  
Eleanor Shimeall - Director  
Robert Mendenhall - 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 basic financial statements are prepared using the “economic resource” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

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.

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

## c. Capital Assets and Depreciation:

Capital assets are valued at cost when constructed or purchased. Donated assets are valued at their estimated fair market value on the date accepted. The District capitalizes all assets with a historical cost of at least \$5,000 and a useful life of more than one year. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Depreciation on capital assets in service, excluding land, is computed using the straight-line method over the estimated useful lives of such assets and is reported as an operating expense. Capital projects are subject to depreciation when completed and placed in service. The ranges of estimated useful lives of capital assets are as follows:

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, 2009, 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 \$3,872,426 held in the California Local Agency Fund (Note 2) and \$1,289,159 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, 2009.

## 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.

1. 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. 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 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, 2009 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, cash equivalents and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 4,076,552
Restricted cash and cash equivalents customer deposits	165,399
Other restricted cash and cash equivalents	187,887
Fiduciary funds:	
Cash and investments	<u>1,289,159</u>
 Total cash, cash equivalents and investments	 <u>\$ 5,718,997</u>

Cash, cash equivalents and investments as of June 30, 2009 consist of the following:

Cash on hand	\$ 37
Deposits with financial institutions	557,375
Investments	<u>5,161,585</u>
 Total cash, cash equivalents and investments	 <u>\$ 5,718,997</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.

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>	Amount as of <u>June 30, 2009</u>	Weighted Average Duration (in years)
Local Agency Investment Fund	\$ 3,872,426	-
Held by Fiscal Agent:		
Money Market Mutual Funds	<u>1,289,159</u>	-
 Total	 <u>\$ 5,161,585</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.

<u>Investment</u>	Total as of <u>June 30, 2009</u>	Minimum Legal Rating	AAA	Unrated
Local Agency Investment Fund	\$ 3,872,426	N/A	\$ -	\$ 3,872,426
Held by Fiscal Agent:				
Money Market Mutual Funds	<u>1,289,159</u>	N/A	<u>1,289,159</u>	<u>-</u>
 Total	 <u>\$ 5,161,585</u>		 <u>\$ 1,289,159</u>	 <u>\$ 3,872,426</u>

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued):**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, 2009, the District's deposits (bank balances) were insured by the Federal Depository Insurance Corporation up to \$250,000 per institution and the remaining balance of the deposits of \$357,411 were collateralized under California Law. The difference between the bank balances and deposits represent deposits in transit and outstanding checks.

California Local Agency Investment Fund (LAIF):

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code 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 cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

## 3. CAPITAL ASSETS:

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

	Balance June 30, 2008	CSD Annexation	Additions	Deletions	Balance June 30, 2009
Capital assets, not depreciated:					
Land	\$ 908,323	\$ 1,506	\$ -	\$ -	\$ 909,829
Construction in Progress - Other	91,309	-	537,715	(91,309)	537,715
Construction in Progress - Intertie	132,242	-	-	(132,242)	-
Total capital assets not depreciated	1,131,874	1,506	537,715	(223,551)	1,447,544
Capital assets, being depreciated:					
Flood control facilities	4,319,604	-	-	-	4,319,604
Sewer facilities	4,754,797	771,500	27,167	-	5,553,464
Water facilities	7,193,042	504,413	463,149	-	8,160,604
Pipelines, wells and tanks	1,277,812	-	9,003	(12,920)	1,273,895
General facilities	973,517	-	2,759	-	976,276
Telemetry system	67,530	-	-	-	67,530
Equipment and furniture	248,745	33,992	55,711	-	338,448
Vehicles	377,706	-	102,769	(23,506)	456,969
Total capital assets, being depreciated	19,212,753	1,309,905	660,558	(36,426)	21,146,790
Less accumulated depreciation	(7,950,451)	(352,790)	(534,097)	23,506	(8,813,832)
Total capital assets being depreciated, net	11,262,302	957,115	126,461	(12,920)	12,332,958
Total capital assets, net	\$ 12,394,176	\$ 958,621	\$ 664,176	\$ (236,471)	\$ 13,780,502

4. LONG-TERM DEBT:

a. A summary of changes in long-term debt for the year ended June 30, 2009 is as follows:

	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009	Due Within One Year
1997 Certificates of Participation	\$ 1,565,000	\$ -	\$ (1,565,000)	\$ -	\$ -
1998 Certificates of Participation	1,410,000	-	(1,410,000)	-	-
	2,975,000	-	(2,975,000)	-	-
Less unamortized bond discounts	(65,650)	-	65,650	-	-
Total Certificates of Participation	2,909,350	-	(2,909,350)	-	
2008 Installment Purchase Agreement	-	2,775,000	-	2,775,000	-
Less deferred amounts: On refunding	-	(190,079)	7,503	(182,576)	-
Total Installment Purchase Agreement	-	2,584,921	7,503	2,592,424	-
Compensated Absences Retirement Agreement	95,264	102,143	(77,655)	119,752	65,552
	48,000	-	(36,000)	12,000	12,000
Total Long-Term Debt	<u>\$ 3,052,614</u>	<u>\$ 2,687,064</u>	<u>\$ (3,015,502)</u>	<u>\$ 2,724,176</u>	<u>\$ 77,552</u>

b. 1997 Certificates of Participation

These certificates were refinanced during the fiscal year; refer to the 2008 Installment Purchase Agreement section below.

c. 1998 Certificates of Participation

These certificates were refinanced during the fiscal year; refer to the 2008 Installment Purchase Agreement section below.

4. LONG-TERM DEBT (Continued):

d. 2008 Installment Purchase Agreement:

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 2014 through 2028. Interest is payable semi-annually on April 1 and October 1 at an interest rate of 6.000% per annum.

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

For the Year Ending June 30	Principal	Interest	Total
2010	\$ -	\$ 124,875	\$ 124,875
2011	-	124,875	124,875
2012	-	124,875	124,875
2013	-	124,875	124,875
2014	25,000	124,312	149,312
2015-2019	730,000	539,325	1,269,325
2020-2024	905,000	356,288	1,261,288
2025-2029	1,115,000	129,712	1,244,712
Totals	<u>\$ 2,775,000</u>	<u>\$ 1,649,137</u>	<u>\$ 4,424,137</u>

e. Debt Covenants:

The District debt issue described above contains various covenants and restrictions, principally that the District shall fix, prescribe and collect revenues sufficient enough to yield net revenues equal to at least 1.15 times the loan installments coming due and payable during any fiscal year.

f. 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.

g. 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.

## 4. 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 balance of the outstanding 2007-1 bonds at June 30, 2009 was \$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 counsel 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, 2009 all deposits received from the Community Facilities District have been deposited with the Trustee.

## 5. 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.

6. 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, 2009 is as follows:

Reserve for Water Conservation Program Implementation	\$ 197,000
Reserve for Sustainable Water Program	1,013,000
Reserve for New Development Engineering	165,000
Reserve for Water Distribution System Improvements	254,000
Reserve for New Production Wells and Upgrades	875,000
Reserve for Storage Tanks	1,646,891
Reserve for Sewer System Improvements	584,000
Reserve for Vehicles/Rolling Stock	56,000
Reserve for Building/Structures	150,000
Reserve for Office/Engineering/Administration	70,000
Reserve for Groundwater Management Program	<u>375,000</u>
 Total	 <u>\$ 5,385,891</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

## 6. RESERVES 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.

**7. 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, 2009, the District participated in the self-insurance programs of the Authority as follows:

Property Loss – Insured up to \$7,365,774 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 \$60,000,000 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 \$60,000,000.

Auto Liability – Insured up to \$60,000,000 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 \$60,000,000.

Public Officials' and Errors and Omissions – Insured up to \$60,000,000 per occurrence; the Authority is self-insured up to \$1,000,000 and excess insurance coverage has been purchased from \$1,000,000 to \$60,000,000.

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 \$7,287,402 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.

**8. PUBLIC EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PLAN):**Plan Description:

The District's employees participate in the Miscellaneous 3% at 60 Risk Pool (Plan) of the California Public Employees' Retirement System (PERS). This plan is cost-sharing, multiple-employer defined benefit pension plan administered by PERS. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance. Copies of PERS' annual financial report may be obtained from the PERS Executive Office: 400 P Street, Sacramento, CA 95814.

8. DEFINED BENEFIT PLAN (Continued):

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 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 required employer contribution for this year into the plan for the fiscal year ended June 30, 2009 was 17.585% 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 PERS. The District's employer contribution for the last three fiscal years, which were equal to the required contribution each year were \$131,669, \$60,285 and \$66,365 for the years ended June 30, 2009, 2008 and 2007 respectively. PERS does not provide individual plan trend information for risk pools.

9. NET WORKING CAPITAL:

Net working capital at June 30, 2009 was as follows:

Current Assets	\$ 4,779,243
Current Liabilities Payable from Current Assets	<u>(467,161)</u>
Net Working Capital	<u>\$ 4,312,082</u>

10. 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.

11. FALLOWED WATER CREDITS:

On October 7, 2007 the District entered into an agreement to purchase a groundwater easement on forty (40) acres of property for \$743,000. The groundwater easement prevents any and all extraction of water from the forty (40) acres (other than by the District) and prevents any agricultural uses of the forty (40) acres.

12. SUBSEQUENT EVENT:

On November 5, 2009 the District entered into a real property purchase agreement for the property located at 2473 Stirrup Road, Borrego Springs, California for \$210,000.