BORREGO WATER DISTRICT

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2011

JUNE 30, 2011

BORREGO WATER DISTRICT

January 11, 2012

To the Honorable President and Members of the Board of Directors and Customers of the Borrego Water District:

State law requires that all general-purpose local governments and special districts publish each fiscal year a complete set of financial statements presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The Annual Financial Report of the Borrego Water District (District) for fiscal year ended June 30, 2011 is hereby submitted as required. White Nelson Diehl Evans LLP, a firm of licensed certified public accountants, has audited the District's financial statements.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditors' Report.

Management assumes full responsibility for the completeness and reliability of the information contained in this letter, the MD&A and the accompanying financial statements, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2011 are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2011 are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

PROFILE OF THE DISTRICT

The Borrego Water District is a small public water and wastewater district serving approximately 2,000 customers in beautiful Borrego Springs, California, a retirement and resort community located about 70 miles NE of San Diego and surrounded by the Anza-Borrego Desert State Park. The District was established in 1962 as a California water district to provide water, sewer, flood control and gnat abatement for areas in the unincorporated community of Borrego Springs located in San Diego County.

Additionally, the District adopted a groundwater management plan under Assembly Bill 3030 in 2002 and obtained the authority of a groundwater replenishment district. This designation allows the District to do planning for groundwater management and provides the authority, among others, to (a) buy and sell water, (b) exchange water (c) distribute water in exchange for ceasing or reducing groundwater extraction

P.O. BOX 1870 / 806 PALM CANYON DRIVE, BORREGO SPRINGS, CA 92004 (760) 767-5806 FAX (760) 767-5994 www.borregowd.org

(d) recharge the basin and (e) build necessary works to achieve groundwater replenishment. The District is not a member of the San Diego County Water Authority (SDCWA), the regional member of the Metropolitan Water District of Southern California (MWD) that imports supplemental water into San Diego County.

Governance

The affairs of the District are governed by a five member Board of Directors elected at large by the registered voters residing in the District. The directors, who are elected, are residents and have the same concerns as their constituents. The Board members, who serve four-year staggered terms, are responsible for establishing policy and ordinances, adopting the annual budget, and hiring the District's General Manager and other advisors to the Board, such as the District's General Counsel, and financial and other advisors. The General Manager is responsible for carrying out the policies and ordinances of the District Board, for overseeing the day-to-day operations of the District and for meeting or exceeding the financial objectives set forth in the annual budget approved by the Board.

Groundwater Supply, Usage & Availability

The District is the only appropriator of groundwater from the unmanaged Borrego Valley Groundwater Basin (the Basin), which has been in overdraft since around 1945. Present overdraft is estimated at approximately 16,000 acre-feet per year (AFY), assuming the natural annual recharge is around 4,000 AFY. The District accounts for about 3,000 AFY or less than 15% of annual withdrawals. Unmetered recreational use by overlyers (mostly 3 golf courses) annually account for about 15% of the annual withdrawals and unmetered agricultural use by overlyers accounts for about 70% of annual withdrawals. Preliminary results from current United States Geological Survey (USGS) models project a complete dewatering of the upper aquifer of the Basin within approximately 50-years. Presently, there is uncertainty concerning the amount and cost of economically extractable potable water that will be available from the middle and lower aquifers once the upper aquifer of the Basin is dewatered.

During the FY 2008-FY 2010 timeframe, technical studies were initiated that included: (1) focusing the USGS modeling work on storage programs rather than on the optimization of the existing water source in the Basin, (2) participating in a U.S. Bureau of Reclamation (Reclamation) investigation of imported water and storage opportunities in the Southeast Region, (3) development of the Clark Lake aquifer potential water source and (4) designing a pipeline transmission route to Highway 78 to access potential groundwater sources from the San Felipe Creek drainage system. Some of these projects were funded by federal grants and some were paid directly from District reserves.

During FY 2011, the Board decided on a revised groundwater management strategy that included working closely with the USGS and Reclamation study teams to ensure that the physical parameters of the Basin are fully defined and that options for managing the Basin and for importing water for storage, recharge, and supplemental supply are evaluated on a timely basis. The Board has chosen to extend the due date of the USGS Basin modeling work so that the District will have time to complete its financial analyses and to select Basin management alternatives to be applied and documented in the final report. The final USGS report and basin management modeling toolset are expected to be available by the fourth quarter 2012. The Reclamation report will include economic analyses of the cost for importing water from viable regional sources. The Reclamation report should be completed by the first quarter of 2013. The Borrego Pipeline Feasibility Study funded partially by the USEPA should be completed by the first quarter of 2012.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

Local Economy

The local economy and the income of retirees living in the Borrego community has been affected by the general downturn in the economy of California and the nation. Additionally, uncertainty over long-term water supply availability and San Diego County's interpretation of Federal Emergency Management Agency (FEMA)-flood control guidelines that have resulted in requirements of a 3-foot to 5-foot minimum build height above ground level for new construction in the Valley has dramatically slowed new development in the Borrego community.

Previous Fiscal Year Spending by the District

The new majority of the Board that was sworn-in in December 2010 inherited a financial situation where much of the District's previous cash reserves of over six million dollars available at the start of FY 2008 had been depleted.

Long-Term Financial Planning

The District's Board of Directors is aware of the need to ensure the District's financial stability and return to creditworthiness. Through a coordinated strategic process, the Board has established a series of policies and plans to effectively meet the District's anticipated future needs. The cornerstone of these policies is the District's 2011 Financial Model prepared by the California office of Raftelis Financial Consultants, Inc. (RFC). This model forecasts the District's expenditures and revenue needs for the next 5 years from FY 2012-FY 2016. The District utilizes this information from the RFC financial model to anticipate future expense obligations and to develop programs to ensure these expense obligations are fully funded. The Board anticipates regularly updating this model as new information becomes available that could impact the District's financial plans.

RELEVANT FINANCIAL POLICIES

Reserve Policy

The District has established a Reserve Fund Policy to anticipate and prepare for future funding requirements as well as for unforeseen events. The Reserve Fund Policy establishes reserves and describes the flow of funds to and from the various reserves.

Risk Management

The District is a member of the California Joint Powers Insurance Authority (JPIA).

Pension and Other Post-Employment Benefits

The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employees defined benefit pension plan for its personnel. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Additional information about the District's pension arrangements and post-employment benefits can be found in the notes to the financial statements.

Investment Policy

The Investment Policy establishes guidelines for the investment of available funds. The Investment Policy incorporates the Prudent Investor Standards. The primary objectives, in priority order, of the District's investment activities are the following: 1) safety, 2) liquidity, and 3) yield. The District's funds are invested in a variety of investments, in accordance with California government code, as described in the notes to the financial statements. The District minimizes interest rate risk by investing a greater portion of its funds in short term investments and minimizes credit risk by investing a majority of its funds in the highest rated investments or in diversified investment pools.

Internal Controls

The District is responsible for establishing and maintaining an internal control structure designed to ensure that the District's assets are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled for the preparation of financial statements in conformity with GAAP. The internal structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that; 1) the cost of control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by management.

Respectfully submitted,

Jerry Rolwing

General Manager

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, 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2011, and the changes in financial position 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the accompanying table of contents 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.

2965 Roosevelt Street, Carlsbad, CA 92008-2389 • Tel: 760.729.2343 • Fax: 760.729.2234

Offices located in Orange and San Diego Counties

Our audit was conducted for the purpose of forming an opinion on the accompanying basic financial statements of the Borrego Water District. The Introductory Section, as identified in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

White Nelson Diehl Evans LLP

January 11, 2012
Carlsbad, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2011

Our discussion and analysis of the Borrego Water District (the 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, 2011. 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, 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 the Cocopah Nurseries, Inc. property 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 go 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 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 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, 2011. Assets in excess of liabilities (Net Assets) were $13,119,094 and $15,932,434 as of June 30, 2011 and 2010, 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, 2011. 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 loss for the year ended June 30, 2011 of ($1,262,672) is combined with net non operating revenues and expenses of ($1,550,668) to arrive at the change in net assets of ($2,813,340). The decrease in net assets is subtracted from beginning net assets of $15,932,434 to arrive at the ending net assets of $13,119,094 as of June 30, 2011.

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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

			Change	
	2011	2010	$	%
Cash and investments	$ 1,025,651	$ 2,720,838	$ (1,695,187)	-62.3
Capital assets	15,166,652	16,705,978	(1,539,326)	-9.2
Other assets	802,130	780,781	21,349	2.7
Total assets	16,994,433	20,207,597	(3,213,164)	-15.9
Current liabilities	317,709	325,594	(7,885)	-2.42
Noncurrent liabilities	3,557,630	3,949,569	(391,939)	-9.92
Total liabilities	3,875,339	4,275,163	(399,824)	-9.35
Net assets				
Invested in capital assets net of related debt	11,864,985	13,563,426	(1,698,441)	-12.5
Restricted	0	187,887	(187,887)	-100.00
Unrestricted	1,254,109	2,181,121	(927,012)	-42.5
Total net assets	$ 13,119,094	$ 15,932,434	$ (2,813,340)	-17.67

- The Cash and Investments variance is due to loss in operating income, CFD-2007-1 bond payments exceeding receipts, and increase of the capital projects program of which $579,642 was spent on sewer system improvements.
- The variance in the noncurrent liabilities is largely due to the reduction of the amount payable to the CFD 2007-1 bond holders.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Analysis of Revenues and Expenses

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

	2011	2010	Change $	Change %
OPERATING REVENUES:				
Water revenue	$ 1,969,697	$ 2,076,154	$ (106,457)	-5.13
Sewer service charges	408,889	400,897	7,992	1.99
Availability charges	275,946	285,316	(9,370)	-3.28
Other income	138,803	160,629	(21,826)	-13.59
Total operating revenues	2,793,335	2,922,996	(129,661)	-4.44
NONOPERATING REVENUES:				
Property taxes	123,071	78,306	44,765	57.17
Investment income	2,503	6,186	(3,683)	-59.54
Gain on sale of asset	0	1,500	(1,500)	-100.00
Grant income	234,869	0	234,869	100.00
Total nonoperating revenues	360,443	85,992	274,451	319.16
CAPITAL CONTRIBUTIONS:	0	43,302	(43,302)	-100.00
TOTAL REVENUES:	3,153,778	3,052,290	101,488	3.32
OPERATING EXPENSES:				
Water operations	1,104,916	1,327,177	(222,261)	-16.75
Sewer operations	212,471	197,941	14,530	7.34
Depreciation expense	637,474	605,092	32,382	5.35
General and administrative	2,101,146	1,585,275	515,871	32.54
Total operating expenses	4,056,007	3,715,485	340,522	9.16
NONOPERATING EXPENSES:				
Loss on disposal of assets	1,744,420	0	1,744,420	100.00
Interest expense	160,203	159,739	464	.03
Amortization expense	6,488	6,488	0	0
Total nonoperating expenses	1,911,111	166,227	1,744,884	1,049.69
TOTAL EXPENSES:	5,967,118	3,881,712	2,085,406	53.72
Change in net assets	(2,813,340)	(829,422)	(1,983,918)	-239.19
TOTAL NET ASSETS, BEGINNING	15,932,434	16,761,856	(829,422)	-4.95
TOTAL NET ASSETS, ENDING	$ 13,119,094	$ 15,932,434	$ (2,813,340)	-17.66

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

- Loss on disposal of assets increased due to the abandonment of the CSD Waste Water Treatment Plant, loss from Cocopah contract, and loss from old CIP projects that are no longer going to be continued or will not lead to tangible assets.
- Operating expenses increased due to management estimating an allowance for doubtful accounts for availability charges of $277,233.

BUDGET HIGHLIGHTS

Fiscal Year 2011 Actual vs. Fiscal Year 2011 Budget

	2011 Actual	2011 Budget	Variance
Revenues:			
From operations	$ 2,793,335	$ 3,118,084	$ (324,749)
Nonoperating	360,443	71,000	289,443
Total revenue	3,153,778	3,189,084	(35,306)
Expenses:			
Water operations	1,104,916	1,100,000	4,916
Sewer operations	212,471	200,000	12,471
Depreciation expense	637,474	600,000	37,474
General and administrative	2,101,146	1,147,593	953,553
Loss on disposal of assets	1,744,420	0	1,744,420
Other nonoperating expenses	166,691	141,491	25,200
Total expenses	5,967,118	3,189,084	2,778,034
Capital Contributions	0	0	0
Change in net assets	$ (2,813,340)	$ 0	$ (2,813,340)

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	
	2010	2011	$	%
Land and land improvements	$ 949,829	$ 949,829	$	
Flood control facilities	4,319,604	4,319,604	-	-
Sewer facilities	5,836,290	5,776,212	(60,078)	-1.03
Water facilities	9,517,058	9,672,863	155,805	1.64
Pipelines, wells and tanks	1,273,895	1,273,895	-	-
General facilities	1,009,060	1,009,060	-	-
Telemetry system	67,530	67,530	-	-
Equipment and furniture	350,517	350,517	-	-
Vehicles	471,546	471,546	-	-
Construction in progress	1,330,937	235,263	(1,095,674)	-82.32
Fallowed water credits	798,214	792,714	(5,500)	-.69
Water Rights - ID #4	185,000	185,000	-	-
	26,109,480	25,104,033	(1,005,447)	-3.85
Less accumulated depreciation	(9,403,502)	(9,937,381)	533,879	5.67
Net capital assets	$ 16,705,978	$ 15,166,652	$ (1,539,326)	-9.21

The $1,095,674 decrease in CIP was largely due to the closing of sewer facilities projects and water facilities projects.

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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

For the Year Ending June 30	Principal	Interest	Total
2012	$ -	124,875	124,875
2013	-	124,875	124,875
2014	25,000	124,313	149,313
2015	135,000	120,713	255,713
2016	140,000	114,525	254,525
2017-2021	795,000	470,813	1,265,813
2022-2026	985,000	271,238	1,256,238
2027-2030	695,000	48,038	743,038
Totals	$ 2,775,000	$ 1,399,390	$ 4,174,390

During the fiscal year ended June 30, 2011, the Montesoro note payable increased to $689,234 due to a clause in the note which states that in the event the District increases water rates the annual payments increase by the same percentage.

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 2011/2012 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. Towards this end, the District has entered into an agreement with a Financial Analysis firm to review the District's cost of service, and revenue requirements, and make recommendations for a new rate design consistent with sound utility management practices.

These indicators were taken into consideration when adopting the District's budget for the fiscal year 2011/2012. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fiscal Year 2011 Actual vs. Fiscal Year 2012 Budget

	2011 Actual	2012 Budget	Change $	Change %
Revenues:				
Operating revenue	$ 2,793,335	$ 2,435,548	$ (357,787)	-12.81
Nonoperating revenue	360,443	82,673	(277,770)	-77.06
Total revenues	3,153,778	2,518,221	(635,557)	-20.15
Expenses:				
Depreciation expense	637,474	0	(637,474)	-100.00
Other operating expenses	3,418,533	2,323,346	(1,095,187)	-32.04
Loss on disposal of assets	1,744,420	0	(1,744,420)	-100.00
Other nonoperating expenses	166,691	194,875	28,184	16.91
Total expenses	5,967,118	2,518,221	(3,448,897)	-57.80
Capital Contributions	0	0	0	0
Changes in net assets	$ (2,813,340)	$ 0	$ (2,813,340)	-100.00

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.

Statement of Net Assets
June 30, 2011

Assets		
Current Assets:		
Cash and cash equivalents (Notes 1 and 2)	$	751,785
Restricted cash and cash equivalents (Notes 1 and 2):		
Customer deposits		27,571
Accounts receivable, net of allowance (Note 1):		
Water and sewer charges		335,692
Property taxes		2,870
Availability charges		55,556
Grant Receivable		99,869
Other		23,604
Inventory (Note 1)		124,942
Prepaid expenses		47,679
Total Current Assets		1,469,568
Noncurrent Assets:		
Debt issuance costs, net of amortization		111,918
Fiduciary fund:		
Restricted cash and cash equivalents (Notes 1, 2 and 5)		246,295
Capital assets not being depreciated (Notes 1 and 3):		
Land		949,829
Construction in progress		235,263
Fallowed water credits		792,714
Water rights - ID4		185,000
Depreciable capital assets, net of accumulated depreciation (Notes 1 and 3)		13,003,846
Total capital assets, net of accumulated depreciation		15,166,652
Total Noncurrent Assets		15,524,865
Total Assets		16,994,433

(continued)

(continued)

Statement of Net Assets
June 30, 2011

Liabilities		
Current Liabilities:		
Unrestricted:		
Accounts payable	$	102,220
Compensated absences (Notes 1 and 4)		86,699
Accrued interest payable		56,543
Current portion of note payable (Note 4)		44,676
Restricted:		
Customer deposits		27,571
Total Current Liabilities		317,709
Noncurrent Liabilities:		
Compensated absences (Notes 1 and 4)		54,344
Fiduciary fund:		
Amount payable to Community Facilities Dist 2007-1 bondholders (Note 5)		246,295
Installment purchase agreement (Note 4)		2,612,433
Note Payable (Note 4)		644,558
Total Noncurrent Liabilities		3,557,630
Total Liabilities		3,875,339
Net Assets		
Invested in capital assets, net of related debt		11,864,985
Unrestricted		1,254,109
Total Net Assets	$	13,119,094

Statement of Revenues, Expenses & Changes in Net Assets
For the Year Ended June 30, 2011

Operating Revenues	
Water revenue	$ 1,969,697
Sewer service charges	408,889
Availability charges	275,946
Other income	138,803
Total Operating Revenues	2,793,335
Operating Expenses	
Water operations	1,104,916
Sewer operations	212,471
Depreciation expense	637,474
General and administrative	2,101,146
Total Operating Expenses	4,056,007
Operating Income (Loss)	(1,262,672)
Nonoperating Revenues (Expenses)	
Property taxes	123,071
Investment income	2,503
Grant income	234,869
Loss on disposal of assets	(1,744,420)
Interest expense	(160,203)
Amortization expense	(6,488)
Total Nonoperating Revenues (Expenses)	(1,550,668)
Change in Net Assets	(2,813,340)
Net Assets, Beginning	15,932,434
Net Assests, Ending	$ 13,119,094

Statement of Cash Flows
For The Year Ended June 30, 2011

Cash Flows from Operating Activities		
Receipts from water and sewer customers		2,351,461
Receipts from availability charges		101,432
Payments to suppliers		(406,248)
Payments to employees		(1,444,335)
Payments for general and administration		(1,295,054)
Other receipts		138,803
Net Cash Provided (Used) by Operating Activities		(553,941)
Cash flows from Noncapital Financing Activities		
Taxes received		122,203
Proceeds from grants		135,000
Deposits paid		(8,815)
Net Cash Provided (Used) by Noncapital and Related Financing Activities		248,388
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets		(848,067)
Proceeds on sale of asset		5,500
Proceeds from debt issuance		194,251
Principal paid on long-term debt		(45,140)
Interest payments on long-term debt		(149,735)
Community facilities dist 2007-1 receipts and payments, net		(548,946)
Net Cash Provided (Used) by Capital and Related Financing Activities		(1,392,137)
Cash Flows from Investing Activities		
Interest received		2,503
Net Cash Provided (Used) by Investing Activities		2,503
Net Increase (Decrease) in Cash and Cash Equivalents		(1,695,187)
Cash and Cash Equivalents, Beginning of the Year		2,720,838
Cash and Cash Equivalents, End of the Year	$	1,025,651
Reconciliation of Operating Income (Loss) to Net Cash Flows		
Provided by Operating Activities:		
Operating income (Loss)	$	(1,262,672)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		637,474
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable, water and sewer charges		(27,125)
(Increase) Decrease in availability charges receivable		102,720
(Increase) Decrease in inventories		5,807
(Increase) Decrease in prepaid expenses		(8,502)
Increase (Decrease) in accounts payable		(6,557)
Increase (Decrease) in compensated absences		4,914
Net Cash Provided (Used) by Operating Activities	$	(553,941)
Noncash Capital, Investing and Financing Activities:		
Amortization related to long term debt	$	16,492

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

JUNE 30, 2011

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, 2011, the board consisted of:

Beth Hart – President	Lyle Brecht- Vice President
Marshal Brecht - Secretary/Treasurer	Eleanor Shimeall - Director
Lee Estep - Director	

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

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The basic financial statements of the Borrego Water District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

   b. Measurement Focus and Basis of Accounting and Financial Statement Presentation (continued):

Net assets of the District are classified into three components: (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. These classifications are defined as follows:

- 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. The District had no restricted net assets as of June 30, 2011.

- 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.

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 and 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.

When both restricted and unrestricted resources are available for use, it is the District’s practice to use restricted resources first, then unrestricted resources as they are needed.

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. Liabilities include an amount for claims that have been incurred but not reported (IBNR). At June 30, 2011, in the opinion of District counsel and management, the District had no IBNR 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 investment pool deposits held in the California Local Agency Fund (Note 2) and deposits held in money market mutual funds at US Bank and Wells Fargo 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, 2011.

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 1st
Levy Date:	July 1st
Due Date:	First Installment - November 1st
	Second Installment - February 1st
Delinquent Date:	First Installment - December 10th
	Second Installment - April 10th

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. At fiscal year ended June 30, 2011 management has estimated an allowance for doubtful accounts for availability charges at $277,233. Management estimates all other receivables at June 30, 2011 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:

   A liability is recorded for unused vacation and sick leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time-off or payment upon termination or retirement.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS:

Cash, cash equivalents and investments are classified in the accompanying financial statements as follows:

Statement of net assets:	2011
Cash and cash equivalents	$ 751,785
Restricted cash and cash equivalents customer deposits	27,571
Cash and cash equivalents before fiduciary funds	779,356
Fiduciary funds:	
Cash and investments	246,295
Total cash, cash equivalents and investments	$ 1,025,651

Cash, cash equivalents and investments consist of the following:

	2011
Cash on hand	$ 49
Deposits with financial institutions	758,570
Investments	267,032
Total cash, cash equivalents and investments	$ 1,025,651

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (LAIF)	N/A	98%	$ 50,000,000
Certificates of Deposit and Savings Accounts	N/A	95%	None
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):

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.

Investment Type	Amount	Weighted Average Duration (in years)
Local Agency Investment Fund	$ 20,737	-
Held by Fiscal Agent:		
Money Market Mutual Fund	246,295	-
Total	$ 267,032	

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.

Investment	Total	Minimum Legal Rating	AAA	Unrated
Local Agency Investment Fund	$ 20,737	N/A	$ -	$ 20,737
Held by Fiscal Agent:				
Money Market Mutual Fund	246,295	N/A	246,295	-
Total	$ 267,032		$ 246,295	$ 20,737

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, 2011, 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 $548,430 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, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets, not depreciated:				
Land	$ 949,829	$ -	$ -	$ 949,829
Construction in progress	1,330,937	650,039	(1,745,713)	235,263
Fallowed water credits	798,214		(5,500)	792,714
Water rights - ID 4	185,000	-	-	185,000
Total capital assets not depreciated	3,263,980	650,039	(1,751,213)	2,162,806
Capital assets, being depreciated:				
Flood control facilities	4,319,604	-	-	4,319,604
Sewer facilities	5,836,290	681,177	(741,255)	5,776,212
Water facilities	9,517,058	216,568	(60,763)	9,672,863
Pipelines, wells and tanks	1,273,895	-	-	1,273,895
General facilities	1,009,060	-	-	1,009,060
Telemetry system	67,530	-	-	67,530
Equipment and furniture	350,517	-	-	350,517
Vehicles	471,546	-	-	471,546
Total capital assets, being depreciated	22,845,500	897,745	(802,018)	22,941,227
Less accumulated depreciation	(9,403,502)	(637,474)	103,595	(9,937,381)
Total capital assets being depreciated, net	13,441,998	260,271	(698,423)	13,003,846
Total capital assets, net	$ 16,705,978	$ 910,310	$ (2,449,636)	$ 15,166,652

Depreciation expense for the year ended June 30, 2011 was $637,474.

4. LONG-TERM DEBT:

A summary of changes in long-term debt is as follows:

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011	Due Within One Year
2008 Installment Purchase Agreement	$ 2,775,000	$ -	$ -	$ 2,775,000	$ -
Less deferred amounts:					
On refunding	(172,571)	-	10,004	(162,567)	-
Total Installment Purchase Agreement	2,602,429	-	10,004	2,612,433	-
Montesoro Note Payable	540,123	194,251	(45,140)	689,234	44,676
Compensated Absences	136,129	76,810	(71,896)	141,043	86,699
Total Long-Term Debt	$ 3,278,681	$ 271,061	$ (107,032)	$ 3,442,710	$ 131,375

a. 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 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 are as follows:

For the Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 124,875	$ 124,875
2013	-	124,875	124,875
2014	25,000	124,313	149,313
2015	135,000	120,713	255,713
2016	140,000	114,525	254,525
2017-2021	795,000	470,813	1,265,813
2022-2026	985,000	271,238	1,256,238
2027-2030	695,000	48,038	743,038
Totals	$ 2,775,000	$ 1,399,390	$ 4,174,390

4. LONG-TERM DEBT (Continued):

b. 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 of Improvement District No. 4 equal to at least 1.15 times the loan installments coming due and payable during any fiscal year. The District was in compliance with this covenant for the fiscal year ended June 30, 2011.

c. 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.

d. 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, 2011 was $9,320,000.

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.

For the fiscal year ending June 30, 2011 there was a special tax delinquency rate of approximately 85% in the Community Facilities District. Due to the high delinquency rate, the Community Facilities District was not able to make the interest payment due February 2011 in the amount of $267,950. In addition, at the request of the bondholders, the remaining $59,415 in the reserve fund was transferred to the administrative expense fund. At June 30, 2011 the balance in the reserve fund is $0. Based on the receipt of delinquent special taxes in June 2011, the Community Facilities District was able to make the full unpaid interest payment of $267,950 on June 28, 2011. The Community Facilities District has commenced foreclosure proceedings against certain property owners that are delinquent.

4. LONG-TERM DEBT (Continued):

e. Note Payable:

In July 2009 the District entered into an agreement to purchase a well and land from Montesoro. 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 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. At fiscal year ended June 30, 2010 the present value of these payments at five percent (5%) was $540,123. During fiscal year ended June 30, 2011 the water rate increase from August 1, 2009 was 43% increasing the annual payments to $100,196 commencing July 1, 2012. At fiscal year ended June 30, 2011 the present value of these payments at five percent (5%) was $689,234.

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

For the Year Ending June 30	Principal	Interest	Total
2012	$ 44,676	$ 25,324	$ 70,000
2013	67,219	32,977	100,196
2014	70,658	29,538	100,196
2015	74,273	25,923	100,196
2016	78,073	22,123	100,196
2017-2021	354,335	46,449	400,784
Totals	$ 689,234	$ 182,334	$ 871,568

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. 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, 2011, the District participated in the self-insurance programs of the Authority as follows:

Property Loss – Insured up to $8,392,480 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 a $1,000 deductible; the Authority is self-insured up to $1,000,000 and excess insurance coverage has been purchased from $1,000,000 to $6,000,000.

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 $8,759,149 replacement values with varying deductibles. 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.

7. 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 a 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.

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. 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 the years ended June 30, 2011 was 17.898% of their annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost:

For the year ended June 30, 2011, the District's annual pension cost of $158,348 was funded. The required contribution for the fiscal year ended June 30, 2011 was determined as part of the June 30, 2008 actuarial valuation using the entry age actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, and (c) 3.25% payroll growth. Both (a) and (b) include an inflation component of 3.00%.

The District's Plan unfunded actuarial accrued liability (or excess assets) is amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the Plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Three-year trend information for the District Plan is as follow:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/09	$131,669	100%	$ -
6/30/10	$180,914	100%	$ -
6/30/11	$158,348	100%	$ -

Funding Status:

The District's miscellaneous plan is a part of a CalPERS Risk Pool for employers with less than 100 active plan members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required as information is not specific to the District.

8. NET WORKING CAPITAL:

Net working capital at June 30, 2011 was as follows:

Current Assets	$	1,469,568
Current Liabilities Payable from Current Assets		(317,709)
Net Working Capital	$	1,151,859

9. INTEREST EXPENSE:

Interest expense for the year ended June 30, 2011, was as follows:

June 30, 2011	$160,203

No interest was capitalized for the fiscal year ended June 30, 2011.

10. SEGMENT INFORMATION:

The 2008 Installment Purchase Agreement as described in Note 4 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.

Summary financial information for Improvement District Number 4 is presented for June 30, 2011.

10. SEGMENT INFORMATION (Continued):

Condensed Statement of Net Assets
June 30, 2011

	ID4
Assets	
Current Assets	$ 896,215
Capital Assets	3,303,263
Other Assets	299,805
Total Assets	4,499,283
Liabilities	
Current Liabilities	145,858
Long-Term Liabilities	2,612,433
Total Liabilites	2,758,291
Net Assets	
Invested in capital assets, net of related debt	690,830
Unrestricted	1,050,162
Total Net Assets	$ 1,740,992

10. SEGMENT INFORMATION (Continued):

Condensed Statement of Revenues, Expenses & Changes in Net Assets
For the Year Ended June 30, 2011

	ID4
Operating Revenues	
Water Revenue	$ 1,243,149
Other Income	217
Total Operating Revenues	1,243,366
Operating Expenses	
Water Operations	485,530
Depreciation Expense	174,402
General and Administrative	424,914
Total Operating Expenses	1,084,846
Operating Income	158,520
Nonoperating Revenues (Expenses)	
Investment Income	41
Interest Expense	(134,879)
Amortization Expense	(6,488)
Total Nonoperating Revenues (Expenses)	(141,326)
Change in Net Assets	17,194
Net Assets, Beginning	1,723,798
Net Assets, Ending	$ 1,740,992

10. SEGMENT INFORMATION (Continued):

Condensed Statement of Cash Flows
June 30, 2011

	ID4
Net Cash Provided by Operating Activities	$ 352,224
Net Cash Provided by Capital and Related Financing Activities	(124,875)
Net Cash Provided by Investing Activities	41
Net Increase in Cash and Cash Equivalents	227,390
Cash and Cash Equivalents, Beginning	549,272
Cash and Cash Equivalents, Ending	$ 776,662

11. SUBSEQUENT EVENTS:

On July 8, 2011 the District entered into an agreement to purchase 125 acres and 312.5 water credits associated with the property located at the north end of DiGeorgio road, Borrego Springs, California for $1,500,000. The terms of the purchase call for a down payment of $75,000 and issuance of a note for a principal amount of $1,425,000. The terms of the note call for interest to accrue at the rate of four percent (4%) per annum. The interest shall accrue without an obligation of repayment prior to the fourth anniversary of this agreement. Interest thereafter will be paid in quarterly installments. A principal payment of $150,000 is due on the fifth anniversary and the remaining principal balance is to be repaid over 25 years.

In conjunction with the agreement above the seller pledged to donate 86 acres to the District upon the earlier of the following (i) the three-year anniversary of the conveyance of the Water Credits and conveyance of Parcel 2 or (ii) the final approval by the County of San Diego of the sellers compliance with the water mitigation requirements.

On November 1, 2011 the District entered into a lease agreement to maintain a golf course located at Club Circle, Borrego Springs, California. This lease terminated a prior lease and easement entered into November 23, 2010. The term of the new lease will commence on November 1, 2011 and terminate June 30, 2015. The District has the option to extend the lease for an additional period of five (5) years from the original expiration date of the lease. The District will pay $1 rent per year the lease is in effect.

On November 1, 2011 the District also entered into maintenance agreement with Green Desert Landscape to maintain and operate a golf course located at Club Circle, Borrego Springs, California. The term of the maintenance agreement will commence on November 1, 2011 and terminate June 30, 2015. The agreement may be renewed by mutual agreement of the parties for an additional period of five (5) years from the original expiration date of the agreement. The agreement calls for Green Desert Landscape to maintain and operate the golf course at Club Circle and to purchase existing golf course equipment owned by the District for a price of $8,325. The District will pay a management fee to Green Desert Landscape of $5,400 per month. Green Desert Landscape is entitled to all revenues produced by the operations of the golf course under the term of the lease.