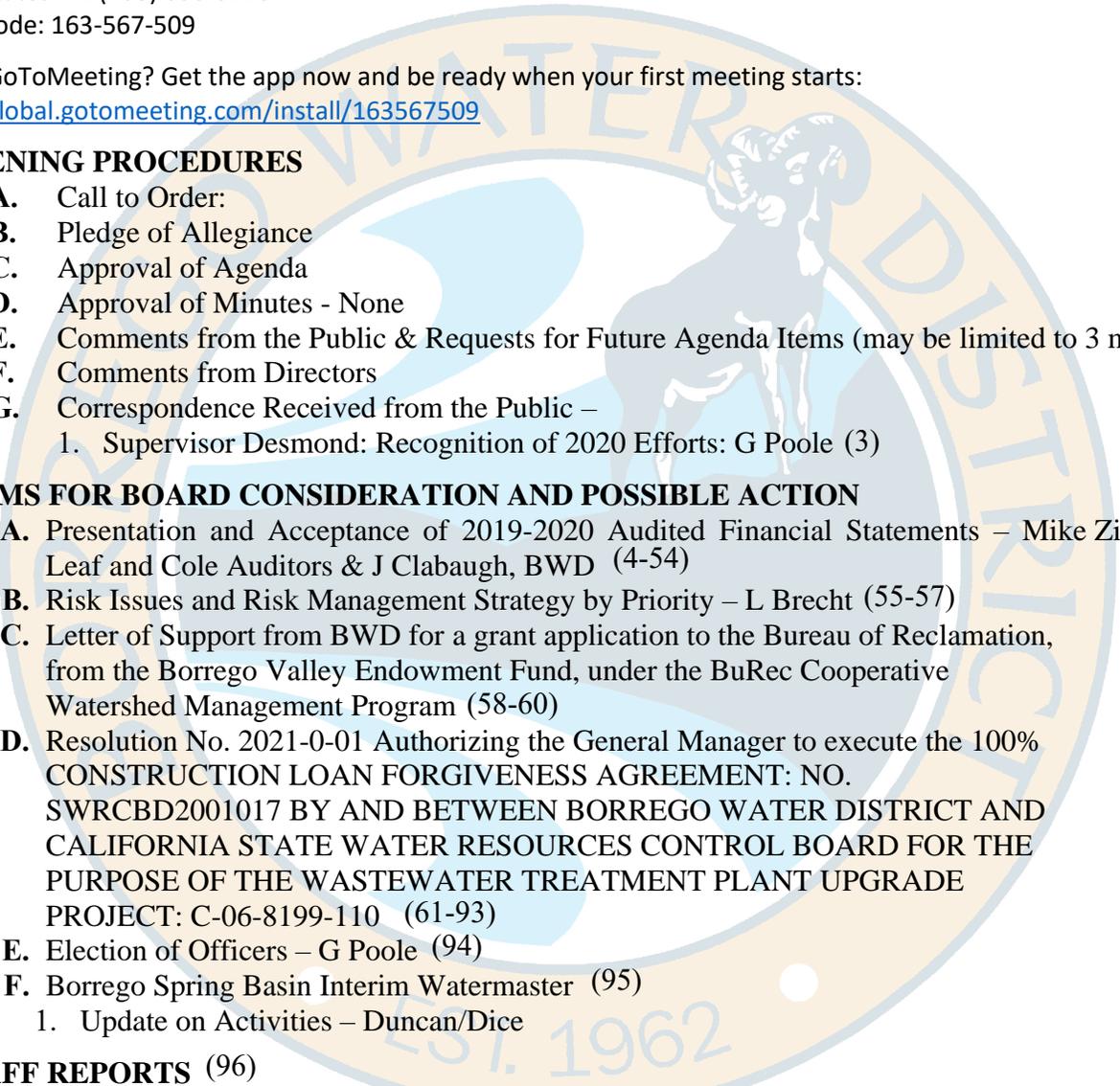


Borrego Water District Board of Directors
Special Meeting
January 12, 2021 @ 9:00 a.m.
806 Palm Canyon Drive
Borrego Springs, CA 92004

Please join my meeting from your computer, tablet or smartphone.
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- 
- The logo of the Borrego Water District is a circular seal. It features a central illustration of a ram's head facing left. The words "BORREGO WATER DISTRICT" are written in a circular path around the ram. Below the ram, the year "1962" is visible. The seal is light blue and yellow.
- I. OPENING PROCEDURES**
- A. Call to Order:
 - B. Pledge of Allegiance
 - C. Approval of Agenda
 - D. Approval of Minutes - None
 - E. Comments from the Public & Requests for Future Agenda Items (may be limited to 3 min)
 - F. Comments from Directors
 - G. Correspondence Received from the Public –
 - 1. Supervisor Desmond: Recognition of 2020 Efforts: G Poole (3)
- II. ITEMS FOR BOARD CONSIDERATION AND POSSIBLE ACTION**
- A. Presentation and Acceptance of 2019-2020 Audited Financial Statements – Mike Zizzi, Leaf and Cole Auditors & J Clabaugh, BWD (4-54)
 - B. Risk Issues and Risk Management Strategy by Priority – L Brecht (55-57)
 - C. Letter of Support from BWD for a grant application to the Bureau of Reclamation, from the Borrego Valley Endowment Fund, under the BuRec Cooperative Watershed Management Program (58-60)
 - D. Resolution No. 2021-0-01 Authorizing the General Manager to execute the 100% CONSTRUCTION LOAN FORGIVENESS AGREEMENT: NO. SWRCBD2001017 BY AND BETWEEN BORREGO WATER DISTRICT AND CALIFORNIA STATE WATER RESOURCES CONTROL BOARD FOR THE PURPOSE OF THE WASTEWATER TREATMENT PLANT UPGRADE PROJECT: C-06-8199-110 (61-93)
 - E. Election of Officers – G Poole (94)
 - F. Borrego Spring Basin Interim Watermaster (95)
 - 1. Update on Activities – Duncan/Dice
- III. STAFF REPORTS (96)**
- A. Water Sales and Revenues Update: J. Clabaugh – VERBAL
 - B. Conflict of Interest Code Update – E Garcia – VERBAL
 - C. Public Outreach Committee Update - T. Baker - VERBAL

AGENDA: January 12, 2021

All Documents for public review on file with the District's secretary located at 806 Palm Canyon Drive, Borrego Springs CA 92004. Any public record provided to a majority of the Board of Directors less than 72 hours prior to the meeting, regarding any item on the open session portion of this agenda, is available for public inspection during normal business hours at the Office of the Board Secretary, located at 806 Palm Canyon Drive, Borrego Springs CA 92004.

The Borrego Springs Water District complies with the Americans with Disabilities Act. Persons with special needs should call Geoff Poole at (760) 767 – 5806 at least 48 hours in advance of the start of this meeting, in order to enable the District to make reasonable arrangements to ensure accessibility.

If you challenge any action of the Board of Directors in court, you may be limited to raising only those issues you or someone else raised at the public hearing, or in written correspondence delivered to the Board of Directors (c/o the Board Secretary) at, or prior to, the public hearing.

IV. CLOSED SESSION:

- A.** Conference with Legal Counsel - Significant exposure to litigation pursuant to paragraph (3) of subdivision (d) of Section 54956.9: (Two (2) potential cases)
- B.** Conference with Legal Counsel – Existing Litigation (BWD v. All Persons Who Claim a Right to Extract Groundwater, et al. (San Diego Superior Court case no. 37-2020-00005776)

- V. CLOSING PROCEDURE:** The next Board Meeting is scheduled for January 26, 2021 at Borrego Water District, 806 Palm Canyon Drive, Borrego Springs, CA 92004



AGENDA: January 12, 2021

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JIM DESMOND

SUPERVISOR, FIFTH DISTRICT
SAN DIEGO COUNTY BOARD OF SUPERVISORS

December 17, 2020

Geoff Poole, Executive Director
Borrego Water District
806 Palm Canyon Drive
Borrego Springs, CA 92004

Dear Geoff,

As 2020 comes to an end, I would like to thank you for your leadership and assistance throughout the year! We could not have accomplished the work on behalf of our constituents in North County without the good work of Borrego Water District.

My staff mentioned you as being someone who helped make 2020 a successful year. Again, thank you for your diligence, professionalism and commitment to making North County a great place to work and live.

The District 5 Team and I wish you and your family a wonderful holiday season and a Happy New Year.

Sincerely,

JIM DESMOND
Supervisor, 5th District
County of San Diego

BORREGO WATER DISTRICT
BOARD OF DIRECTORS MEETING
JANUARY 12, 2021
AGENDA ITEM II.A

January 12, 2021

TO: Board of Directors

FROM: Geoffrey Poole, General Manager; Jessica Clabaugh, Finance Officer

SUBJECT: Presentation and Acceptance of FY2020 Audited Financial Statements – M Zizzi, Leaf & Cole & J Clabaugh, BWD

RECOMMENDED ACTION:

Receive and Accept Annual Audit

ITEM EXPLANATION:

The Districts financials are audited annually as required by State Law and to provide reasonable assurance that the financial statements of the District are free of material misstatements.

Attached are the Proposed Audited Financial Statements for Fiscal Year 2020. Staff will be available to answer any questions from the Directors or the Public at the meeting.

NEXT STEPS:

1. Review Documents and Accept

FISCAL IMPACT:

1. See Attached

ATTACHMENTS:

1. Draft Audited Financial Statements for FY2019-2020

BORREGO WATER DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

DRAFT



Leaf & Cole, LLP
Certified Public Accountants

**BORREGO WATER DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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DRAFT



December 15, 2020

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 (BWD; District) for fiscal year ended June 30, 2020 is hereby submitted as required by Leaf and Cole, LLP., a firm of licensed certified public accountants, who 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 Transmittal Letter, the MD&A, and the accompanying financial statements based upon a comprehensive framework of internal controls that it has established for this purpose. Because the cost of internal controls 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 is to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2020 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 unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2020 are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this year's audit report.

PROFILE OF THE DISTRICT

The District was established in 1962 as a State of California special district (Water Code § 35565) to provide water and sewer services and flood risk management and gnat abatement for areas in the Borrego Springs community. The District acquired neighboring Borrego Springs Water Company in 1997 and in 2009 acquired Borrego Springs Park Community Services District. The present size of the District's service area is approximately 50 square miles. Borrego Springs is an unincorporated destination community of approximately 3,500 full-time and approximately 8,000 winter residents, located in a remote northeast corner of San Diego County, approximately 90 miles drive from San Diego and 87 miles drive from Palm Springs.

Borrego Springs is surrounded on all sides by the Anza-Borrego Desert State Park (the Park). The Park, which encompasses over 248,880 hectares (615,000 acres) in and around the Borrego Valley, was established in 1933 to protect this unique desert environment. The military presence of both the Army and Navy during World War II brought the first paved roads and electricity to Borrego Springs. After the war, developers subdivided the area, attempting to create a resort community by capitalizing on the tourism generated by the Park. The Park is the largest state park in California. It was designated as a National Natural Landmark in 1974 and a Biosphere Reserve in the 1980's by the United Nations.

The Park contains approximately 85% of State designated wilderness area within California and is approximately the size of Rhode Island. The Park attracts more than 500,000 visitors to the region on an average year. Borrego Springs can welcome more than a million visitors to its community on a super bloom year, as in the springs of 2017 and 2019. An economic study developed for the Anza-Borrego Foundation (ABF) estimates the revenue to the region generated by visitation to the Park during an average year is approximately \$40 million annually (BBC Consulting, 2012).

Infrastructure

The District has 9 production wells with a replacement cost of approximately \$1,500,000 each. These production wells are located primarily in the Central Management Area of the groundwater basin and are connected to approximately 100 miles of distribution lines. The District's water system serves approximately 2,059 residential, commercial, institutional, and irrigation customers. The District currently delivers approximately 1,600 acre-feet (521 million gallons) annually to its customers. The District also provides sewer and wastewater treatment services to approximately 830 customers located primarily in the Town Center, Club Circle and Rams Hill developments. The District's flood control authority is presently exercised only at Rams Hill. The estimated present replacement cost value of the District's water, sewer and wastewater treatment facilities infrastructure is approximately \$62,500,000.

Governance

A five-member board of directors work as a team to govern the affairs of the District. The board is elected at large by the registered voters residing within the District's boundaries, with vacant positions that occur between elections appointed by the existing board and during election years by the San Diego County Board of Supervisors if there is no competition for a seat on the board. The directors, who are elected or appointed, are residents and have similar concerns as their constituents.

The board members, who serve four-year staggered terms, are responsible for establishing the direction of the District through adopting policies and ordinances for the smooth running of the District; ensuring that sound fiscal policy exists; that management practices and controls are in place for accountability; adopting the annual budget; approving personnel policies and organizational structure; hiring the District's General Manager; and hiring other advisors to the board, such as the District's legal counsel, financial and other advisors, as may be required. The General Manager is responsible for carrying out the policies and ordinances approved by the District's board, for overseeing the day-to-day operations of the District, and for meeting the customer service and financial objectives set forth in the annual operating and capital improvements projects (CIP) budget approved by the board.

Groundwater Supply, Usage & Availability

The Borrego Springs Subbasin (Subbasin) of the Borrego Valley Groundwater Basin is located at the western-most extent of the Sonoran Desert. The Borrego Springs community overlying the Subbasin relies on local groundwater resources as the sole source of municipal drinking water, domestic supply, and agricultural irrigation.

The California Department of Water Resources (DWR) has designated the 98-square-mile Subbasin as high priority and critically overdrafted. Chronic lowering of groundwater levels in the Subbasin's three aquifers has historically occurred and is ongoing. The critical overdraft annually exceeds the long-term sustainable yield of the Subbasin. Also, presently there is no economically viable alternative source of imported water supply.

The primary source of water to the Subbasin is surface water (storm water and ephemeral stream flow) that flows into the valley from adjacent mountain watersheds and infiltrates within the valley. The contributory watersheds are approximately 400 square miles (sq. mi) and much larger in area than the approximately 98 sq. mi (62,776 acres) Subbasin. Direct recharge by rainfall within the valley is very low compared to surface water inflows as the annual rainfall averages 5.8 inches per year (in/yr). Stream and flood flows from the adjacent watersheds provide the bulk of the water that enters the Subbasin.

The current hydrologic conceptual model for the aquifer system is that it consists of three unconfined aquifers; the upper, middle and lower aquifers. The upper and middle aquifers are the primary sources of groundwater currently and are typically comprised of unconsolidated sediments. However, with time, the upper aquifer has already become or is expected to become dewatered and the lower aquifer will become a more important source of water as overdraft continues. These three aquifers, Pleistocene (2.5 million years ago) to Holocene (11,700 years ago) era fossil water deposits, are the community's sole source of water. In modern times, the upper and middle aquifers have been the principle sources for groundwater pumping in Borrego Valley.

Since 1945, when large scale pumping began in the Borrego Springs area following World War II, the cumulative volume loss within the Subbasin (which accounts for both annual inflows and outflows) has been approximately 520,000 acre-feet (AF), equivalent to about one-third of the groundwater volume originally present.

At this time there are no plans to import water from outside the Borrego Valley due to the economic cost of a pipeline and the uncertainty of available and affordable imported supply from the Colorado River. Readers may consult the [*Southwest California Regional Basin Study Evaluates Water Supply and Demand in Borrego, Coachella and Imperial Valleys*](#) by the U.S. Bureau of Reclamation for more information. Importation of new supply from nearby groundwater basins has also been ruled out due to availability of potential adequate supply and cost. Readers may consult the *Borrego Spring Pipeline Feasibility Study: Final Report* by the U.S. Environmental Protection Agency – Region 9 (2012).

The net replenishment (natural recharge less outflows) of the basin of approximately 5,700 acre-feet per year (AFY) annually is based on historical data (1945-2015). During this period the actual annual natural net recharge was highly variable, fluctuating from less than 1,000 AFY during long dry periods to more than 25,000 AFY in exceptionally wet years.

The current rate of groundwater pumping produces an average annual basin storage change (overdraft) of approximately 13,000 AF of water per year based on estimated current withdrawal rates using evapotranspiration rates by crop type for agricultural and recreational withdrawals and municipal metered usage and the US Geological Survey's (USGS) calculated average annual net replenishment rate. Based on the historical data from 66 years, groundwater levels have declined as much as 126 feet (average of nearly 2 feet per year) in the northern part of the Subbasin and about 87 feet (average of 1.3 feet per year) in the west-central part. In the southeastern part of the Subbasin where less groundwater has been pumped, groundwater levels have remained relatively stable during the same time period. At the current rate of use, the groundwater supply from the Subbasin is not sustainable.

Presently, the Subbasin is usefully divided into three Basin Management Areas (South, Central, North) based on differences in transmissivity (how fast groundwater flows from one area to the next) and water quality. Depending on the Management Area location, wells are often screened primarily in the three different aquifers of the basin and exhibit different water quality characteristics. Readers should review the USGS, *Hydrogeology, Hydrologic Effects of Development, and Simulation of Groundwater Flow in the Borrego Valley, San Diego County* (2015) for more complete information.

Sustaining groundwater use requires considering both water quantity and quality. As water levels continue to drop in the basin, water quality may also decline, which may require expensive additional advanced treatment for municipal uses. Thus, the cost of municipal water supply for municipal uses will likely continue to increase over time.

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 to San Diego County.

Sustainable Groundwater Management Act of 2014 (SGMA)

The overarching aim of SGMA is to establish and achieve a *sustainability goal* for the Subbasin through the development and implementation of a Groundwater Sustainability Plan (GSP) by the Groundwater Sustainability Agency (GSA) for the Subbasin or alternatively by a Watermaster implementing a *Physical Solution* under a court Stipulated Judgment. Both are valid options under SGMA. In enacting SGMA, the Legislature also set forth more specific purposes underlying the legislation, which include providing for sustainable management of groundwater, avoiding six designated *undesirable results* to groundwater resources that could occur without proper management, enhancing the ability of local agencies to take action to protect groundwater resources, and preserving the security of water rights to the greatest extent possible consistent with sustainable management of groundwater.

As defined by SGMA: “A basin is subject to critical overdraft when continuation of present water management practices would probably result in significant adverse overdraft-related environmental, social, or economic impacts.” Thus, the intent of the GSP is to achieve long-term groundwater sustainability by restoring balance to (i.e., reaching *sustainability*) in the Subbasin no later than January 2040, as mandated by SGMA.

The County of San Diego and BWD entered into a Memorandum of Understanding (MOU) for forming a multi-agency Borrego Valley Groundwater Sustainability Agency (GSA) to develop a GSP for the Subbasin. The intent of this GSP was to meet the requirements of SGMA. To this end, the GSP includes the scientific and other background information about the Subbasin required by SGMA and its implementing regulations. The GSP was also intended to provide a roadmap for how sustainability is to be reached in the Subbasin by January 2040. Information regarding the GSP including stakeholder process is available from the County’s website: <https://www.sandiegocounty.gov/content/sdc/pds/SGMA/borrego-valley.html>.

In October 2019, the County informed DWR of its decision to decline further participation as a GSA for the implementation phase of SGMA effective December 31, 2019. On January 30, 2020, pursuant to California Water Code (CWC) Sections 10733.6 and 10737.4, BWD submitted to DWR a proposed Stipulated Judgment including a groundwater management plan (GMP), constituting a *Physical Solution* for DWR’s review and approval to serve as an alternative to a GSP for the Subbasin in compliance with SGMA. The pumpers of the Subbasin representing approximately 92% of annual extractions agreed to a Settlement of water rights also applied to the California Superior Court (Court) for a Stipulated Judgment (Judgement). Until the Court approves the Judgement, the Subbasin pumpers have agreed to implement the *Physical Solution* under an interim Watermaster board. BWD has agreed to hold its GSA responsibilities in abeyance until the Court rules on the Judgement, at which time BWD would dissolve the GSA.

The first Annual Report for the Borrego Springs Groundwater Subbasin has been prepared for submittal to the California State Department of Water Resources (DWR) on April 1, 2020 per Article 7, Section 356.2—Annual Reports, of the California Code of Regulations. This report has been prepared for the Borrego Water District (BWD) on behalf of the stipulating parties to the proposed groundwater rights adjudication for the Borrego Springs Groundwater Subbasin (Subbasin) (DWR Basin No. 7.024.01) of the Borrego Valley Groundwater Basin. This GSA report is available at: <http://www.bvgsp.org/watermaster-board-meetings.html>.

California's Ongoing Drought

Because the Borrego Valley relies solely on the Subbasin for its municipal, recreational, and farming irrigation uses, the California drought has produced no physical impairment of water supply for BWD and is not expected to do so in the near future. Although in 2017, the California drought was officially declared over, Borrego water users continue to make investments to use water more efficiently and to engage in water conservation programs. The desert environment provides an ongoing impetus to use water wisely.

Capital Improvements Program (CIP)

BWD updates its 10-year CIP project costs annually in consultation with its district engineer. Detail of the projects and costs incurred under its bond with Pacific Western Bank are included in BWD's annual budget.

Cyber Security Risk Management

BWD has a robust cybersecurity policy and engages in ongoing and periodic intrusion detection services performed by a professional cyber security firm for both exterior and interior hacking threats.

Flood Risk Management

BWD has a flood risk reduction assessment policy and engages a professional engineering firm to periodically assess that BWD's flood risk reduction facilities at Rams Hill are maintained to meet the specific flood risk objectives for such facilities.

Groundwater Water Levels and Water Quality Changes Risk Management

The groundwater level monitoring network includes 23 dedicated monitoring wells and 27 extraction wells. Of the 50 wells in the network, 46 are monitored for groundwater levels, 30 are monitored for water quality, and 19 are monitored for production. Manual groundwater level measurements are collected in the spring and fall of each year to track seasonal groundwater trends. Groundwater quality monitoring includes sampling, on average, 30 wells on a semi-annual basis to determine and track groundwater quality trends. Wells are monitored for potential contaminants of concern (COCs). The COCs include arsenic, fluoride, nitrate, sulfate and total dissolved solids (TDS).

COVID-19 Risk Management Policies

The national COVID-19 public health emergency presents a range of challenges, including ensuring level of service, assisting low-income customers, and assuring responsible financial management of the District. The BWD Board shares its customers' concerns about the coronavirus. The District's primary public health responsibility is to continue providing safe water to drink and use, right from the tap. The District's treatment process effectively removes viruses, including COVID-19, and we're testing it daily, weekly and monthly to assure it continues to meet federal and state drinking water standards. We have suspended all turn-offs for nonpayment, to ensure everyone continues to have access to water for washing hands and cleaning. We have cancelled all meetings or gatherings for non-essential purposes during this emergency, and are holding public meeting via the internet. We have also closed our lobby to the public to protect our office staff and implemented social distancing for our field staff. Additionally, all our staff have paid sick leave and if they have been exposed to the virus or are symptomatic are told to stay home from work.

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

Located in an arid desert climate, Borrego's present economy has been made possible by the overuse of groundwater supplies that have been depleted far faster than those supplies can be replenished. This is true of the agricultural, recreational and municipal water use sectors that bring on average 500,000 visitors to the Borrego Valley annually. Thus, uncertainty over the costs of long-term water supply, potential future costs for treating groundwater to meet safe drinking water quality standards due to the critical overdraft resulting in degraded water quality, and the economic impacts of meeting SGMA objectives for the Subbasin may be slowing investments for new development in the Valley.

For example, one result of SGMA is to change the present cost of the groundwater itself from zero dollars for use to a positive amount. Borrego is considered a Severely Disadvantaged Community (SDAC). A SDAC is defined as a community with a median household income (MHI) of less than 60% of the California statewide MHI. The Valley is also considered an Economically Distressed Area (EDA). An EDA is defined as a geographic area with a population of 20,000 or less with an annual MHI that is less than 85% of the California statewide MHI, and with at least one of the following conditions, as determined by the Department of Water Resources (DWR): a) financial hardship; b) unemployment rate at least 2% higher than the statewide average; or c) low population density.

Previous Fiscal Years Spending by the District

The District has largely addressed the financial situation that was inherited from the 2007-2010 Board and general manager's decisions that between FY 2008 – FY 2011 spent more than \$6.3 million of the District's \$6.5 million cash reserves and potentially obligated the District to spend another \$7.0 million for unfunded projects. These spending and future obligations resulted in the District no longer having the financial stability to obtain new debt to pay for necessary long-term capital improvement projects (CIP). With the cancellation of many of the future obligations incurred by the 2007 board, reduction of annual operating and maintenance (O&M) expenses by more than \$1.2 million, careful cash flow management, and Proposition 218 approved rate increases during the period FY 2012-2021, the District then had sufficient annual cash flow and cash reserves by FY 2018 for necessary borrowing to issue \$5.5 million in bonds to fund needed CIP for FY 2019-2021.

The District's Board believes timely investments in CIP are necessary to produce the lowest economic cost provision of municipal water, sewer and wastewater treatment services over the long term for the District's customers.

Environmental and Climate Changes

Decisions concerning land use, application to the land of substances that may contaminate groundwater, and the use of inadequate sureties for County grading permits in order to restore development-disturbed desert lands are some of the environmental changes that may cause additional costs for the District to provide potable municipal water to its customers. Additionally, with the advent of Anthropogenic Climate Disruption (climate change), the current scientifically accepted prognosis is for potentially greater future climate variability. Such variability may result in higher frequency of floods and longer periods of lower precipitation in the Park's watersheds that provide recharge to the Subbasin, and increased risk for wildfires due to longer, drier conditions. Thus, climate changes may introduce additional costs for the District to provide potable municipal water to its customers.

Long-Term Financial Planning

Through a coordinated strategic process, the Board has established a series of policies and plans to effectively meet the District's anticipated future revenue needs. The principles the District has adopted for maintaining revenue sufficiency and good credit include: (a) the active management and projection of monthly cash flow during the year; (b) holding operating and maintenance (O&M) expenditures to the annual budget; (c) minimal increases in salaries and benefits for employees; (d) refinancing of existing debt obligations where such refinancing would produce reductions in future long term cash obligations; (e) minimizing its reliance of operating cash flow to fund CIP; (f) the active development of state and federal grant opportunities for funding CIP and SGMA-related costs; (g) implementing annual water and sewer rate increases to increase cash flow and to accumulate cash reserves; (h) the maintenance of sufficient cash reserves to address emergency and environmental and climate change risk factors; and (i) pursuing regular proactive Proposition 218 5-year rate increase approvals.

The primary driver for the long-term financial viability of the District, as well as the economy of the Valley is the critical overdraft's potential impact on water quality (see section on Groundwater Supply, Usage & Availability above) and the need to relocate existing wells and add new wells as well production is impacted by water table declines due to the overdraft. Thus, to minimize its financial risk, the District plans to maintain financial stability and a good credit standing with the debt markets in order to accommodate raising future new debt for its municipal operations.

RELEVANT FINANCIAL POLICIES

Reserve Policy

The District has established a Reserve Funds Policy to anticipate and to prepare for future funding requirements as well as for unforeseen events. The Reserve Funds Policy establishes restricted and unrestricted reserves and describes the flow of funds to and from the various reserves. A copy of the District's updated and approved Reserve Funds Policy, along with the projected reserve funds targets, is available on the District's website as a component of the most recent fiscal year budget document.

Risk Management

The District is a member of the California Joint Powers Insurance Authority (JPIA). The JPIA pools for the first \$500,000 of general, auto & public officials liability coverage and has purchased excess coverage up to \$60 million. The JPIA provides coverage on repair or replacement against loss of District property caused by earthquake or flood of \$20 million. The District also has a risk management policy that describes the policies, practices, and procedures for some of the District's more salient financial risks identified by staff and the Board.

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 diversified investment pools.

Internal Controls

The District is responsible for establishing and maintaining an internal controls 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,



Geoffrey Poole, General Manager



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Borrego Water District
806 Palm Canyon Drive
Borrego Springs, California 92004

We have audited the accompanying financial statements of Borrego Water District, which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Borrego Water District, as of June 30, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 38 to 40 as identified in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Borrego Water District. The introductory section, and schedules of assessed valuation are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and schedule of assessed valuation sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

San Diego, California
January __, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of Borrego Water District (District) provides an overview of the District's financial activities for the years ended June 30, 2020 and 2019. Please read it in conjunction with the District's financial statements which begin on page 10.

Financial Statements

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The Borrego Water District operates as a public utility and maintains its accounting records in accordance with generally accepted accounting principles for a proprietary fund as prescribed by the Government Accounting Standards Board (GASB). The financial statements of the District report information about the District using accounting methods similar to those used by companies in the private sector. These statements offer short and long-term financial information about its activities. The District's financial statements include five components.

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Notes to the Financial Statements
- Other Information

The statements of net position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the net difference reported as net position. Net position may be displayed in three categories:

- Net Investment in Capital Assets
- Restricted Net Position
- Unrestricted

The statements of net position provide the basis for computing rate of return, evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statements of revenues, expense and changes in net position present information which shows how the District's net position changed during the year. The financial statements, except for the cash flow statements are prepared using the accrual basis of accounting, which means that revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of cash receipts or payments. The statements of revenues, expenses, and changes in net position measure the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The statements of cash flows provide information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Noncapital financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position because the statement accounts only for transactions that result in cash receipts or cash disbursements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statements (Continued)

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Other Information

In addition to the financial statements and accompanying notes, the financial statements also present certain required supplementary information, which follows the notes to the financial statements. This other information includes pension funding schedules.

Financial Highlights

During the fiscal year ended June 30, 2020 and 2019, the following events impacted, or have the potential to impact, the finances of the District.

- During FY 2020, the District received \$267,602.50 from the California Department of Water Resources (DWR) Proposition One Severely Disadvantaged Community (SDAC) grant for Sustainable Groundwater Management Act (SDAC) Groundwater Sustainability Plan (GSP) development and \$21,775.50 from the Borrego Valley Endowment Fund (BVEF) for the air quality monitoring program with the University of California, Irvine.
- On June 9, 2020, due to the COVID-19 public health emergency, the District's Board of Directors delayed Proposition 218 compliant rate increases for FY 2020 - 2021 that include: sewer revenue increases for FY 2021 of approximately four percent; an increase in base rates for all water service customer classes and meter sizes of six percent; and increase in residential water commodity rates for Tier-1 (less than 7 HCF usage for that month) and Tier-2 (greater than 7 HCF usage for that month) and in non-residential rates (water fee, power fee and groundwater management fee) of approximately six percent. The Board reserved the right to impose such approved rate increases at a later date, depending on COVID-19 public health emergency and the District's financial requirements.
- The District's Board approved a budget for fiscal year 2021 that included sewer rate changes that will result in an approximate revenue increase of 1.5% for sewer service charges; an increase of 2% for water base rates; and an increase of 2% for water commodity rates over the fiscal year 2020 rates in effect. The new rates are effective January 1, 2021 and will be reflected initially in customers' February 2021 billings.
- Total operating revenues increased \$34,330. Increases in grant income offset by decreases in water sales resulting from a one-time payment received in the prior year under the Spare Capacity Lease Agreement.
- Total operating expenses increased \$411,560 as a result of fewer salaries being capitalized, higher pension costs due to actuarial adjustments, additional administrative costs related to the groundwater basin under the stipulated agreement as well as the cost of the Club Circle sewer inspection. (Notes and details can be found on page 6)
- Non-operating expenses were less than non-operating revenues as watermaster reimbursements, property taxes and investment income exceeds interest expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights (Continued)

- Cash and cash equivalents decreased to \$7,882,456 at June 30, 2020 from \$9,795,605 at June 30, 2019. Proceeds from the Installment Sale agreement are drawn down as needed to fund capital projects. Bond proceeds of \$1,986,766 to fund future capital projects remains on-hand at June 30, 2020 down from \$4,641,507 at June 30, 2019.
- Capital assets increased to \$17,903,777 at June 30, 2020 from \$16,346,850 at June 30, 2019, which included improvements to Production Well #1 and Well #12 and five other wells.

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

Financial Analysis of the District

Net Position

The following is a summary of the District's statements of net position at June 30:

	<u>2020</u>	<u>2019</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Assets:</u>				
Cash and cash equivalents	\$ 7,882,456	\$ 9,795,605	\$ (1,913,149)	(19.53)%
Capital assets	17,903,777	16,346,850	1,556,927	9.52%
Other assets	879,603	716,521	163,082	22.76%
Total Assets	<u>26,665,836</u>	<u>26,858,976</u>	<u>(193,140)</u>	(.72)%
<u>Deferred Outflows of Resources</u>	<u>400,047</u>	<u>416,679</u>	<u>(16,632)</u>	7.73%
<u>Liabilities:</u>				
Current liabilities	1,089,728	1,616,208	(526,480)	(32.58)%
Noncurrent liabilities	7,792,745	8,382,305	(589,560)	(7.03)%
Total Liabilities	<u>8,882,473</u>	<u>9,998,513</u>	<u>(1,116,040)</u>	(11.16)%
<u>Deferred Inflows of Resources</u>	<u>38,168</u>	<u>34,862</u>	<u>3,306</u>	35.21%
<u>Net Position:</u>				
Net investment in capital assets	12,537,469	13,030,057	(492,588)	(3.78)%
Unrestricted	5,607,773	4,212,223	1,395,550	33.13%
Total Net Position	<u>\$ 18,145,242</u>	<u>\$ 17,242,280</u>	<u>\$ 902,962</u>	5.24%

From the table above, net position increased by \$902,962 from fiscal year 2019 to 2020. Net investment in capital assets decreased \$492,588. As construction funds are spent more of the long-term debt is allocated to net investment in capital assets which when combined with depreciation expense exceeded the amount spent on capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues, Expenses and Change in Net Position

The following is a summary of the District's change in net position for the years ended June 30:

	<u>2020</u>	<u>2019</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Operating Revenues:</u>				
Water sales	\$ 3,481,437	\$ 3,703,309	\$ (221,872)	(6.00)%
Sewer service charges	637,067	630,595	6,472	1.03%
Availability charges	240,406	239,844	562	.23%
Watermaster reimbursements	178,385	-	178,385	100%
Other income	3,574	43,785	(40,211)	(91.84)%
Total Operating Revenues	<u>4,540,869</u>	<u>4,617,533</u>	<u>(76,664)</u>	<u>(1.67)%</u>
<u>Operating Expenses:</u>				
Water operations	1,603,282	1,445,321	157,961	10.93%
General and administrative	686,552	559,225	127,327	22.77%
Depreciation	648,226	643,648	4,578	.71%
Sewer operations	480,602	377,597	103,005	27.28%
Pumping	332,380	309,721	22,659	7.32%
Treatment	21,020	24,990	(3,970)	(15.89)%
Total Operating Expenses	<u>3,772,062</u>	<u>3,360,502</u>	<u>411,560</u>	<u>12.25%</u>
Operating Income	<u>768,807</u>	<u>1,257,031</u>	<u>(488,224)</u>	<u>(38.84)%</u>
<u>Nonoperating Revenues (Expenses):</u>				
Nonoperating revenues	146,834	148,912	(2,078)	(1.40)%
Nonoperating expenses	(308,890)	(468,299)	159,409	34.04%
Nonoperating Revenues (Expenses), Net	<u>(162,056)</u>	<u>(319,387)</u>	<u>157,331</u>	<u>49.26%</u>
Income Before Contributions	606,751	937,644	(330,893)	(35.29)%
Capital Contributions	<u>296,211</u>	<u>-</u>	<u>296,211</u>	<u>100%</u>
Change in Net Position	902,962	937,644	(34,682)	(3.70)%
Net Position at Beginning of Year	<u>17,242,280</u>	<u>16,304,636</u>	<u>937,644</u>	<u>5.75%</u>
Net Position at End of Year	<u>\$ 18,145,242</u>	<u>\$ 17,242,280</u>	<u>\$ 902,962</u>	<u>5.24%</u>

A closer examination of the source of changes in net position reveals that the District's operating revenues decreased by \$76,664 in fiscal year 2020. Watermaster reimbursements received for the first time were offset by decreases in water sales. One-time payments received in the prior year under the Spare Capacity Lease Agreement were not replaced in the current year. Nonoperating expenses, decreased \$159,409 due to a decrease in interest expense (including issuance costs incurred in the prior year). Operating expenses, exclusive of depreciation increased \$406,982 in fiscal year 2020 due to higher costs of labor and benefits, sewer inspection cost and administrative costs under the Stipulated Agreement.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

Capital assets consist of the following at June 30:

	<u>2020</u>	<u>2019</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Land	\$ 1,013,650	\$ 1,013,650	\$ -	0.00%
Flood control facilities	4,287,340	4,287,340	-	0.00%
Sewer facilities	6,459,962	6,459,962	-	0.00%
Water facilities	14,105,276	11,621,512	2,483,764	21.37%
General facilities	1,006,881	1,006,881	-	0.00%
Telemetry system	46,459	46,459	-	0.00%
Equipment and furniture	550,853	550,853	-	0.00%
Vehicles	675,446	715,320	(39,874)	(5.57)%
Construction in progress	1,770,555	2,038,366	(267,811)	(13.14)%
Fallowed water credits	942,850	953,650	(10,800)	(1.13)%
Water rights - ID #4	185,000	185,000	-	0.00%
Total Assets	<u>31,044,272</u>	<u>28,878,993</u>	<u>2,165,279</u>	7.50%
Less: Accumulated depreciation	<u>(13,140,495)</u>	<u>(12,532,143)</u>	<u>(608,352)</u>	4.85%
Net Capital Assets	<u>\$ 17,903,777</u>	<u>\$ 16,346,850</u>	<u>\$ 1,556,927</u>	9.52%

The net additions to capital assets for fiscal year 2020 totaled \$1,556,927. Significant capital asset additions include improvements to Well #1 to Well #12 and five other wells.

Long-Term Debt

The following is a summary of long-term debt at June 30:

	<u>2020</u>	<u>2019</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Installment Purchase Agreement	\$ 4,930,000	\$ 5,235,000	\$ (305,000)	(5.83)%
Promissory Note 2018A	1,915,000	2,096,000	(181,000)	(8.64)%
Promissory Note 2018B	634,875	746,619	(111,744)	(14.97)%
Total Long-Term Debt	<u>\$ 7,479,875</u>	<u>\$ 8,077,619</u>	<u>\$ (597,744)</u>	(7.40)%

The District decreased its debt outstanding by \$597,744 for fiscal year 2020 by making principal payments on all of its long-term debts.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2020 - 2021 budget, user fees and charges. The District attempts to balance revenues with operating expenses that have increased due to inflationary factors, such as cost of living, cost of water, and insurance coverage.

These indicators were taken into consideration when adopting the District's budget for the fiscal year 2020 - 2021. 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.

On November 24, 2020, the District's Board of Directors approved Proposition 218 compliant rate increases for FY 2020 - 2021 that include: sewer revenue increases for FY 2021 of approximately four percent; an increase in base rates for all water service customer classes and meter sizes of six percent; and an increase in residential water commodity rates for Tier-1 (less than 7 HCF usage for that month) and Tier-2 (greater than 7 HCF usage for that month) and in non-residential rates (water fee, power fee and groundwater management fee) of approximately six percent. Half of these rate increases will go into effect on January 1, 2021 and the remaining half will go into effect on April 1, 2021. The new rates will be reflected initially in customers' February 2021 and May 2021 billings.

On November 24, 2020, the District's Board of Directors approved a revised FY 2021 budget that anticipates Capital Improvement Program (CIP) project's spending of approximately \$23,000,000 through FY 2028-29. The Board has engaged the District's financial advisors to develop a financing plan and the District's municipal advisors to conduct a Cost of Service study to determine the feasibility and funding plan for these necessary CIP projects.

Fiscal Year 2020 Actual vs. Fiscal Year 2021 Budget

	<u>2021 Budget</u>	<u>2020 Actual</u>	<u>Variance</u>	
			<u>Dollar</u>	<u>Percentage</u>
<u>Revenues:</u>				
Operating revenue	\$ 4,256,071	\$ 4,540,869	\$ (284,798)	(6.27)%
Nonoperating revenue	131,000	146,834	(15,834)	(10.78)%
Capital contributions	-	296,211	(296,211)	(100.00)%
Total Revenue	<u>4,387,071</u>	<u>4,983,914</u>	<u>(596,843)</u>	<u>(11.98)%</u>
<u>Expenses:</u>				
Operating expenses	2,985,837	3,772,062	(786,225)	(20.84)%
Non-operating expenses	267,697	308,890	(41,193)	(13.34)%
Total Expenses	<u>3,253,534</u>	<u>4,080,952</u>	<u>(827,418)</u>	<u>(20.28)%</u>
Change in Net Position	<u>\$ 1,133,537</u>	<u>\$ 902,962</u>	<u>\$ 230,575</u>	<u>25.54%</u>

Borrego Water District does not budget for depreciation, but prefers to budget for actual capital assets using the internally generated 10 year Capital Improvement Budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Future Year's Budget and Rates (Continued)

The District's Board has been in negotiations with other pumpers of the Borrego Springs Subbasin ("Basin") through December 2019 to apportion water rights through Judgment of the Basin. The Stipulated Judgment will define Basin water rights for each pumper producing two acre feet or more in the Basin and impose a "physical solution" regarding Basin management including use of Basin storage space, overseen by the Superior Court. Under the Sustainable Groundwater Management Act (SGMA), a Stipulated Judgment can serve as an "alternative" to a Groundwater Sustainability Plan (GSP) mandated by SGMA. Pending judicial approval of the Stipulated Judgment, the District will recover approximately \$300,000 in GSP development costs, have an obligation to pay along with other pumpers approximately \$40/acre-foot annually for extractions from the Basin, and likely obtain some amount of supplemental water supply to meet municipal needs beginning in approximately five years. The Agreement has been approved by the Board of Directors and the major pumpers in the Borrego Valley, and is pending judicial approval.

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 Geoff Poole, General Manager, or Jessica Clabaugh, Fiscal Officer at the Borrego Water District, 806 Palm Canyon Drive, Borrego Springs, California, 92004 or by telephone at (760) 767-5806.

**BORREGO WATER DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
<u>Current Assets:</u> (Notes 1 and 2)		
Cash and cash equivalents	\$ 5,854,390	\$ 5,140,398
Accounts receivable - Water and sewer, net	608,928	598,255
Accounts receivable - Watermaster reimbursements	111,200	-
Accrued interest receivable	7,465	-
Property tax receivable	3,569	-
Inventory	119,581	112,302
Prepaid expenses	28,860	5,964
Total Current Assets	<u>6,733,993</u>	<u>5,856,919</u>
<u>Noncurrent Assets:</u> (Notes 1, 2, 3 and 4)		
Restricted Assets:		
Cash and cash equivalents	2,028,066	4,655,207
Total Restricted Assets	<u>2,028,066</u>	<u>4,655,207</u>
Capital Assets:		
Nondepreciable capital assets	3,912,055	4,190,666
Depreciable capital assets, net	13,991,722	12,156,184
Total Capital Assets	<u>17,903,777</u>	<u>16,346,850</u>
TOTAL ASSETS	<u>26,665,836</u>	<u>26,858,976</u>
<u>DEFERRED OUTFLOWS OF RESOURCES:</u> (Notes 1 and 6)		
Deferred outflows related to refunding	85,502	105,620
Deferred outflows related to pensions	125,210	148,544
Deferred outflows related to pension contributions	189,335	162,515
Total Deferred Outflows of Resources	<u>400,047</u>	<u>416,679</u>

The accompanying notes are an integral part of the financial statements.

**BORREGO WATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u> (Notes 1 and 5)		
Accounts payable	\$ 286,337	\$ 850,895
Accrued interest payable	70,639	75,453
Customer deposits	41,300	13,700
Current portion of noncurrent liabilities	691,452	676,160
Total Current Liabilities	<u>1,089,728</u>	<u>1,616,208</u>
<u>Noncurrent Liabilities:</u> (Notes 1, 5 and 6)		
Notes payable, net of current portion	6,856,337	7,479,875
Compensated absences	45,276	52,277
Net pension liability	891,132	850,153
Total Noncurrent Liabilities	<u>7,792,745</u>	<u>8,382,305</u>
 Total Liabilities	 <u>8,882,473</u>	 <u>9,998,513</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u> (Notes 1 and 6)		
Deferred inflows related to pensions	<u>38,168</u>	<u>34,862</u>
<u>Commitments and Contingencies</u> (Notes 6 and 7)		
<u>NET POSITION:</u>		
Net investment in capital assets	12,537,469	13,030,057
Unrestricted	5,607,773	4,212,223
Total Net Position	<u>\$ 18,145,242</u>	<u>\$ 17,242,280</u>

The accompanying notes are an integral part of the financial statements.

BORREGO WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>Operating Revenues:</u>		
Water sales	\$ 3,481,437	\$ 3,703,309
Sewer service charges	637,067	630,595
Availability charges	240,406	239,844
Watermaster reimbursements	178,385	-
Other income	3,574	43,785
Total Operating Revenues	<u>4,540,869</u>	<u>4,617,533</u>
<u>Operating Expenses:</u>		
Water operations	1,603,282	1,445,321
General and administrative	686,552	559,225
Depreciation	648,226	643,648
Sewer operations	480,602	377,597
Pumping	332,380	309,721
Treatment	21,020	24,990
Total Operating Expenses	<u>3,772,062</u>	<u>3,360,502</u>
Operating Income	<u>768,807</u>	<u>1,257,031</u>
<u>Nonoperating Revenues (Expenses):</u>		
Investment income	76,542	84,856
Property taxes	70,292	62,756
Gain on disposal of capital assets	-	1,300
Interest expense	(308,890)	(468,299)
Total Nonoperating Revenues (Expenses)	<u>(162,056)</u>	<u>(319,387)</u>
Income Before Contributions	606,751	937,644
Capital Contributions	<u>296,211</u>	<u>-</u>
Change in Net Position	902,962	937,644
Net Position at Beginning of Year	<u>17,242,280</u>	<u>16,304,636</u>
NET POSITION AT END OF YEAR	<u>\$ 18,145,242</u>	<u>\$ 17,242,280</u>

The accompanying notes are an integral part of the financial statements.

**BORREGO WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<u>Cash Flow From Operating Activities:</u>		
Cash received from customers	\$ 4,237,037	\$ 4,447,226
Cash received from watermaster reimbursements	178,385	
Cash payments to suppliers for goods and services	(1,954,888)	(1,747,309)
Cash payments to employees for services	(1,194,736)	(1,086,974)
Customer deposits	27,600	
Other operating cash receipts	3,574	43,785
Net Cash Provided by Operating Activities	<u>1,296,972</u>	<u>1,656,728</u>
<u>Cash Flows From Noncapital Financing Activities:</u>		
Receipts from property taxes	<u>66,723</u>	<u>62,756</u>
Net Cash Provided by Noncapital financing Activities	<u>66,723</u>	<u>62,756</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition and construction of capital assets	(2,750,802)	(1,297,661)
Proceeds from sale of capital assets	-	1,300
District contribution to refunding	-	(32,647)
Proceeds from long-term debt	-	8,743,535
Principal paid on long-term debt	(597,744)	(3,690,422)
Interest paid on long-term debt	(293,586)	(404,955)
Capital contributions	296,211	-
Net Cash (Used in) Provided by Capital and Related Financing Activities	<u>(3,345,921)</u>	<u>3,319,150</u>
<u>Cash Flows From Investing Activities:</u>		
Investment income	<u>69,077</u>	<u>84,856</u>
Net Cash Provided by Investing Activities	<u>69,077</u>	<u>84,856</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(1,913,149)	5,123,490
Cash and Cash Equivalents at Beginning of Year	<u>9,795,605</u>	<u>4,672,115</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 7,882,456</u>	<u>\$ 9,795,605</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

**BORREGO WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<u>Reconciliation of Operating Income to Net</u>		
<u>Cash Provided by Operating Activities:</u>		
Operating income	\$ 768,807	\$ 1,257,031
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	648,226	643,648
Change in assets and liabilities:		
Accounts receivable - Water and sewer, net	(10,673)	(8,659)
Accounts receivable - Watermaster reimbursements	(111,200)	-
Inventory	(7,279)	2,382
Prepaid expenses	(22,896)	25,863
Deferred outflows related to pension	23,334	82,806
Deferred outflows related to pension contributions	(26,820)	(19,726)
Accounts payable	(18,909)	(119,105)
Customer deposits	27,600	(117,863)
Compensated absences	(17,503)	14,981
Net pension liability	40,979	(61,745)
Deferred inflows related to pensions	3,306	(42,885)
Net Cash Provided by Operating Activities	<u>\$ 1,296,972</u>	<u>\$ 1,656,728</u>
<u>Cash and Cash Equivalents:</u>		
<u>Financial Statement Classification</u>		
Cash and cash equivalents	\$ 5,854,390	\$ 5,140,398
Restricted cash and cash equivalents	<u>2,028,066</u>	<u>4,655,207</u>
Total Cash and Cash Equivalents	<u>\$ 7,882,456</u>	<u>\$ 9,795,605</u>
<u>Supplemental Disclosure of Cash Flow Information</u>		
Capital assets included in increase in accounts payable	<u>\$ 189,062</u>	<u>\$ 734,711</u>
Amortization of deferred outflows related to refunding	<u>\$ 20,118</u>	<u>\$ 19,565</u>

The accompanying notes are an integral part of the financial statements.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 1 - Organization and Significant Accounting Policies:

Organization

Borrego Water District (the “District”) was established in 1962 pursuant to section 35565 of the California Water Code to provide water, sewer, flood control and gnat abatement services to properties in the District. The District is governed by a five member board of directors that are elected at-large by the registered voters residing in the boundaries of the District. The District has nine active wells and approximately 90 miles of distribution lines. In addition, the District provides sewer and wastewater services primarily in the Town Center, Club Circle, and Rams Hill Development.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Cod. Sec. 2100 “Defining the Financial Reporting Entity”. The District is the primary government unit. Component units are those entities, which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit’s board, or because the component unit will provide a financial benefit or impose a financial burden on the District.

The Borrego Water District Public Facilities Corporation (the Corporation) was organized in May 1996 under the nonprofit Public Benefit Corporation Law of the State of California to render assistance to the Borrego Water District and any Special Districts which are governed by the Board of Directors of the Borrego Water District with respect to providing various public facilities or services to or for the benefit of the District. The District has accounted for the Corporation as a blended component unit. Despite being legally separate, the Corporation is so intertwined with the District that the Corporation is in substance part of the District’s operations. Accordingly, the Corporation is included within the financial statements of the District.

Significant Accounting Policies

A summary of the District’s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Method of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statements of net position and the statements of revenues, expenses and changes in net position have been prepared using the economic resources measurement focus and the accrual basis of accounting.

Capital assets may be constructed by private developers and then dedicated to the District, which is then responsible for their future maintenance. These facilities are recorded as capital contributions when they pass inspection by the District and the estimated costs are capitalized.

The District has not elected to apply the option allowed in GASB Cod. Sec. P80.103, “Proprietary Fund Accounting and Financial Reporting” and as a consequence will continue to apply GASB statements and interpretations.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, 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. Actual results could differ from those estimates.

Revenue Recognition

The District recognizes revenues from water sales, sewer service charges, availability charges, and other income when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, the District considers fees received from water sales, sewer services and availability charges to be operating revenues. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego.

Accounts Receivable - Watermaster Reimbursement

Pursuant to the State of California adopting the Sustainable Groundwater Management Act (SGMA) in 2014, all parties who pump groundwater from the Borrego Springs Groundwater Subbasin, entered into an agreement (Settlement Agreement) that establishes a physical solution to bring sustainability to the Critically Over-drafted Subbasin. In accordance with the Settlement Agreement, the signing parties agreed to share costs associated with preparation of a Groundwater Sustainability Plan (GSP). The majority of the costs associated with the Settlement Agreement are reimbursed thru the signing parties. The District recognized watermaster reimbursement revenue totaling \$178,385 and \$-0- for the years ended June 30, 2020 and 2019, respectively. Accounts receivable - watermaster reimbursement totaled \$111,200 and \$-0- at June 30, 2020 and 2019, respectively.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. The allowance for doubtful accounts receivable totaled \$153,686 and \$113,828 at June 30, 2020 and 2019 .

Taxes and Assessments

Property taxes and assessments are billed by the County of San Diego to property owners. The District's property tax calendar for the fiscal year ended June 30, 2020 and 2019, was as follows:

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

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Taxes and Assessments - (Continued)

The County collects the taxes from the property owners and remits the funds to the District periodically during the year. The District has an arrangement with the County whereby the County remits taxes which are delinquent as of each June 30 to the District in exchange for the right to retain the delinquent taxes, penalties, and interest when these amounts are subsequently collected.

Inventory

Inventory consists primarily of materials used in the construction and maintenance of capital assets and is valued average cost.

Capital Assets

Capital assets purchased or acquired with a cost exceeding \$5,000 and an estimated useful life more than one year are reported at historical cost. Donated capital assets, donated works of art, and similar items, and capital assets received in service concession agreements are reported at acquisition value. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Upon sale or disposition of property and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings. Depreciation is calculated on the straight-line method over the following estimated useful lives:

Flood control facilities	100 years
Sewer facilities	7 - 50 years
Water facilities	20 - 50 years
General facilities	20 - 50 years
Telemetry system	5 - 6 years
Equipment and furniture	5 - 20 years
Vehicles	5 - 40 years

Depreciation aggregated \$648,226 and \$643,648 for the years ended June 30, 2020 and 2019, respectively.

Amortization

The deferred amount on refunding is being amortized on the straight-line method over the remaining life of the related debt. Amortization of the deferred amount on refunding totaled \$20,118 and \$19,565 for the years ended June 30, 2020 and 2019, respectively and is included in interest expense.

Compensated Absences

Accumulated and unpaid vacation and sick leave totaling \$113,190 and \$130,693 is accrued when incurred and included in current and noncurrent liabilities at June 30, 2020 and 2019, respectively.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined as a consumption of net assets by the District that is applicable to a future period and an acquisition of net assets by the District that is applicable to a future reporting period respectively. Deferred outflows of resources include a deferred amount on refunding. Deferred outflows of resources and deferred inflows of resources are more fully described in Note 6.

Risk Management

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority). The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. 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.

At June 30, 2020, the District participated in the self-insurance programs of the Authority as follows:

Property Loss - Provides for full value replacement of real and personal property owned by the District in the event of a loss. Actual cash value on licensed vehicles, mobile equipment and Hypalon reservoir covers. The JPIA pools for the first \$100,000 and has purchased excess coverage.

General and Auto Liability - Insured up to \$60 million per occurrence; the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased. The general and auto liability program has no deductible.

Public Officials' Liability - Insured up to \$60 million per occurrence; the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased.

Fidelity Bond - Insured up to \$1,000,000 per occurrence with a \$100,000 deductible.

Workers' Compensation - Insured up to the statutory limits; the Authority is self-insured up to \$2 million and excess insurance coverage has been purchased. Employer's liability is insured up to \$4 million.

Difference in Conditions - Provides coverage on a repair or replacement basis against loss of District property caused by earthquake or flood, up to \$25 million with a \$25,000 deductible.

The District pays annual premiums for this coverage. They are subject to retrospective adjustments based on claims experienced. The nature and amounts of the adjustments cannot be estimated and are charged to expense as invoiced. The District's insurance expense totaled \$61,770 and \$55,578 for the years ended June 30, 2020 and 2019 . There were no instances in the past three years where a settlement exceeded the District's coverage.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Measurement Period	June 30, 2018 to June 30, 2019

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The District's statements of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in the California Local Agency Investment Fund (LAIF) are considered Level 2 assets and are reported at the fair value of the underlying assets as provided LAIF.

Economic Dependency

The District pumps 100% of its water from the Borrego Springs Sub-Basin of the Borrego Valley groundwater basin. Interruption of this source would impact the District negatively.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all investment instruments purchased with a maturity of three months or less to be cash.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January __, 2021, the date the financial statements were available to be issued.

Reclassification

The District has reclassified certain prior year information to conform with the current year presentation.

Note 2 - Cash and Investments:

Investment Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate 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 provision 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>Quality Requirements</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations	5 years	None	None
California Local Agency Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	None
Commercial Paper	270 days	25%	A1
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	A Rating
Mutual Funds	N/A	20%	Multiple
Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	AA Rating
Time Deposits	5 years	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investment Funds	N/A	None	None

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 2 - Cash and Investments: (Continued)

Investment Authorized by the California Government Code and the District's Investment Policy (Continued)

The District's investment policy is more restrictive than the California Government Code. The District limits the percentage of its portfolio that can be invested in LAIF, certificates of deposit and savings accounts and U.S. Government bills, notes, bonds and overnight money market funds.

Cash and investments held by the District were comprised of the following at June 30:

	<u>2020</u>	<u>2019</u>
	<u>Maturity in Years</u>	<u>Maturity in Years</u>
	<u>One Year or Less</u>	<u>One Year or Less</u>
Cash on hand	\$ 354	\$ 107
California Local Agency Investment Fund (LAIF)	2,045,961	22,056
Deposits with financial institutions	5,836,141	9,773,442
Total Cash and Investments	<u>\$ 7,882,456</u>	<u>\$ 9,795,605</u>
Financial Statement Classification:		
Cash and cash equivalents	\$ 5,854,390	\$ 5,140,398
Cash and cash equivalents - Restricted	2,028,066	4,655,207
Total Cash and Investments	<u>\$ 7,882,456</u>	<u>\$ 9,795,605</u>

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. The district manages its exposure to interest rate risk by purchasing shorter term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided in the previous table that shows the distribution of the District's investments by maturity at June 30, 2020 and 2019 .

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 2 - Cash and Investments: (Continued)

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 below is the actual rating as of the year for each investment type.

	<u>Rating as of Year End Standard & Poor's</u>
California Local Agency Investment Fund (LAIF)	Not Rated

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude to the District's investment in a single issue.

The investment policy of the District contains limits on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code as described below. The District holds no investments in any one issuer (other than U.S. Treasury obligations, mutual funds, and external investment pools) that represent 5% or more of total District investments at June 30, 2020 and 2019.

<u>Investment Type</u>	<u>Maximum Percentage of Portfolio</u>
California Local Agency Investment Fund	98%
FDIC Insured Institutions (C.D.'s and Savings Accounts)	95%
U.S. Government Bills, Notes, Bonds, and Overnight Money Markets Funds	20%
Certificate of Deposit, Account Registry Services	95%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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 counter-party (e.g., broker-dealer) the District 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.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 2 - Cash and Investments: (Continued)

Custodial Credit Risk (Continued)

At June 30, 2020 and 2019, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Investment in State Investment Pool

The District is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by 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.

The statements of cash flows have been prepared by considering all investment instruments purchased with a maturity of three months or less to be cash equivalents. Following is a detail at June 30:

	<u>2020</u>	<u>2019</u>
Deposits with financial institutions	\$ 5,836,141	\$ 9,773,442
California Local Agency Investment Fund (LAIF)	2,045,961	22,056
Cash on hand	354	107
Total	\$ 7,882,456	\$ 9,795,605

Note 3 - Restricted Assets:

Restricted assets were provided by, and are to be used for the following at June 30:

<u>Funding Source</u>	<u>Use</u>	<u>2020</u>	<u>2019</u>
Bond proceeds and interest earnings	Capital facilities	\$ 1,986,766	\$ 4,641,507
Deposits	Deposits	41,300	13,700
		\$ 2,028,066	\$ 4,655,207

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as necessary.

BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 4 - Capital Assets:

Capital assets consist of the following at June 30:

	2020			
	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020
Capital Assets Not Being Depreciated:				
Land	\$ 1,013,650	\$ -	\$ -	\$ 1,013,650
Construction in progress	2,038,366	2,311,085	(2,578,896)	1,770,555
Fallowed water credits	953,650	-	(10,800)	942,850
Water rights - ID No. 4	185,000	-	-	185,000
Total Capital Assets Not Being Depreciated	<u>\$ 4,190,666</u>	<u>\$ 2,311,085</u>	<u>\$ (2,589,696)</u>	<u>\$ 3,912,055</u>
Capital Assets Being Depreciated:				
Flood control facilities	\$ 4,287,340	\$ -	\$ -	\$ 4,287,340
Sewer facilities	6,459,962	-	-	6,459,962
Water facilities	11,621,512	2,483,764	-	14,105,276
General facilities	1,006,881	-	-	1,006,881
Telemetry system	46,459	-	-	46,459
Equipment and furniture	550,853	-	-	550,853
Vehicles	715,320	-	(39,874)	675,446
Total Capital Assets Being Depreciated	24,688,327	2,483,764	(39,874)	27,132,217
Less: Accumulated depreciation	(12,532,143)	(648,226)	39,874	(13,140,495)
Net Capital Assets Being Depreciated	<u>12,156,184</u>	<u>1,835,538</u>	<u>-</u>	<u>13,991,722</u>
Net Capital Assets	<u>\$ 16,346,850</u>	<u>\$ 4,146,623</u>	<u>\$ (2,589,696)</u>	<u>\$ 17,903,777</u>
	2019			
	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019
Capital Assets Not Being Depreciated:				
Land	\$ 1,013,650	\$ -	\$ -	\$ 1,013,650
Construction in progress	156,319	1,917,488	(35,441)	2,038,366
Fallowed water credits	953,650	-	-	953,650
Water rights - ID No. 4	185,000	-	-	185,000
Total Capital Assets Not Being Depreciated	<u>\$ 2,308,619</u>	<u>\$ 1,917,488</u>	<u>\$ (35,441)</u>	<u>\$ 4,190,666</u>
Capital Assets Being Depreciated:				
Flood control facilities	\$ 4,287,340	\$ -	\$ -	\$ 4,287,340
Sewer facilities	6,459,962	-	-	6,459,962
Water facilities	11,621,512	-	-	11,621,512
General facilities	1,006,881	-	-	1,006,881
Telemetry system	46,459	-	-	46,459
Equipment and furniture	539,063	11,790	-	550,853
Vehicles	594,050	138,535	(17,265)	715,320
Total Capital Assets Being Depreciated	24,555,267	150,325	(17,265)	24,688,327
Less: Accumulated depreciation	(11,905,760)	(643,648)	17,265	(12,532,143)
Net Capital Assets Being Depreciated	<u>12,649,507</u>	<u>(493,323)</u>	<u>-</u>	<u>12,156,184</u>
Net Capital Assets	<u>\$ 14,958,126</u>	<u>\$ 1,424,165</u>	<u>\$ (35,441)</u>	<u>\$ 16,346,850</u>

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 5 - Noncurrent Liabilities:

Noncurrent liabilities consist of the following at June 30:

	2020				
	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020	Current Portion
<u>Notes Payable:</u>					
Installment Purchase Agreement	\$ 5,235,000	\$ -	\$ (305,000)	\$ 4,930,000	\$ 317,000
Promissory Note 2018A	2,096,000	-	(181,000)	1,915,000	190,000
Promissory Note 2018B	746,619	-	(111,744)	634,875	116,538
Total Notes Payable	<u>\$ 8,077,619</u>	<u>\$ -</u>	<u>\$ (597,744)</u>	<u>\$ 7,479,875</u>	<u>\$ 623,538</u>
<u>Other Noncurrent Liabilities:</u>					
Accrued Compensated Absences	\$ 130,693	\$ 113,190	\$ (130,693)	\$ 113,190	\$ 67,914
Net Pension Liability	850,153	230,134	(189,155)	891,132	-
Total Other Long-Term Liabilities	<u>\$ 980,846</u>	<u>\$ 343,324</u>	<u>\$ (319,848)</u>	<u>\$ 1,004,322</u>	<u>\$ 67,914</u>
2019					
	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019	Current Portion
<u>Notes Payable:</u>					
Refunding Installment Purchase Agreement	\$ 2,180,000	\$ -	\$ (2,180,000)	\$ -	\$ -
2015 Compass Bank Note	844,506	-	(844,506)	-	-
Installment Purchase Agreement	-	5,586,000	(351,000)	5,235,000	305,000
Promissory Note 2018A	-	2,294,000	(198,000)	2,096,000	181,000
Promissory Note 2018B	-	863,535	(116,916)	746,619	111,744
Total Notes Payable	<u>\$ 3,024,506</u>	<u>\$ 8,743,535</u>	<u>\$ (3,690,422)</u>	<u>\$ 8,077,619</u>	<u>\$ 597,744</u>
<u>Other Noncurrent Liabilities:</u>					
Accrued Compensated Absences	\$ 115,712	\$ 130,693	\$ (115,712)	\$ 130,693	\$ 78,416
Net Pension Liability	911,898	120,965	(182,710)	850,153	-
Total Other Long-Term Liabilities	<u>\$ 1,027,610</u>	<u>\$ 251,658</u>	<u>\$ (298,422)</u>	<u>\$ 980,846</u>	<u>\$ 78,416</u>

Refunding Installment Purchase

In October, 2008, the District entered into an installment purchase agreement totaling \$2,775,000 while concurrently redeeming all of its 1997 Certificates of Participation and 1998 Certificates of Participation. The Borrego Water District Refunding Installment Purchase Agreement was payable in annual principal installments of \$25,000 to \$245,000 in October each year beginning 2013 through 2028. Interest was payable semi-annually in April and October at an interest rate of 4.5% per annum. The installment payments were a special obligation of the District payable solely from revenues of Improvement District No. 4. During the year ended June 30, 2019, the Refunding Installment Purchase Agreement was fully refunded with the proceeds of Promissory Note 2018A.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 5 - Noncurrent Liabilities: (Continued)

2015 Compass Bank Note

In May 2015, the District entered into a 10-year promissory note agreement with Compass Bank in the amount of \$1,125,000. Quarterly payments of principal and interest at 4.95% totaled \$35,572 and were due from September 2015 through June 2025. The note was secured by a senior pledge of net water system revenues of the District. (Net of Improvement District No. 4 operations). The 2015 Compass Bank Note was further secured by a subordinate pledge of net system revenues of the District's Improvement District No. 4. During the year ended June 30, 2019, the Compass Bank Note was fully refunded with the proceeds of Promissory Note 2018B.

Although the refunding of both the 2008 Refunding Installment Purchase Agreement and the 2015 Compass Bank Note, resulted in a deferred amount on refunding of \$125,185, by refunding the Refunding Installment Purchase Agreement, the Corporation in effect reduced the aggregate debt service payments by approximately \$45,000 over the next ten years and obtained an economic gain (difference between the present value of the old debt and the new debt service payments) of \$37,944 and by refunding the 2015 Compass Bank Note, the Corporation, in effect, reduced the aggregate debt service payments by approximately \$19,127 over the next six years and obtained an economic gain of \$7,298. The deferred amount on refunding is being amortized over the remaining life of the refunded debt. Amortization expense totaled \$20,118 and \$19,565 for the years ended June 30, 2020 and 2019, respectively and is included in interest expense. The deferred amount on refunding was \$85,502 and \$105,620 at June 30, 2020 and 2019.

Installment Purchase Agreement

In July 2018, the District entered into an Installment Purchase Agreement with the Borrego Water District Public Facilities Corporation ("Corporation"). The Corporation provided \$5,586,000 for the purpose of financing costs of the District's project as defined in the Agreement. The Installment Purchase Agreement is payable in semi-annual installments of principal plus interest of 3.825% on or before April 1 and October 1 each year commencing October 1, 2018 through and including October 1, 2038. Payments under the Installment Purchase Agreement are secured by a lien on and pledge of net revenues. The District has covenanted to fix, prescribe, revise, and collect rates, fees, and charges for services and facilities sufficient to yield estimated net revenues equal to 125% of the aggregate amount of debt service on all parity obligations payable from net revenues coming due and payable during such fiscal year. The District had a debt service ratio of 2.09:1 and 2.25:1 for the years ended June 30, 2020 and 2019, respectively. The Installment Purchase Agreement had an outstanding principal balance of \$4,930,000 and \$5,235,000 and accrued interest payable of \$47,935 and \$50,060 at June 30, 2020 and 2019, respectively.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 5 - Noncurrent Liabilities: (Continued)

Promissory Note 2018A

In July 2018, the District entered into a promissory note with Compass Bank in the amount of \$2,294,000 for the purpose of defeasing and prepaying the Borrego Water District Refunding Installment Purchase Agreement. The promissory note is payable in semi-annual payments of principal and interest at 3.35% commencing October 1, 2018 through and including October 1, 2028. Payments under the promissory note are secured by a lien on and pledge of net revenues. The District has covenanted to fix, prescribe, revise, and collect rates, fees, and charges for services and facilities sufficient to yield estimated net revenues equal to 125% of the aggregate amount of debt service on all parity obligations payable from net revenues coming due and payable during such fiscal year. The District had a debt service ratio of 2.09:1 and 2.41:1 for the years ended June 30, 2020 and 2019, respectively. The Promissory Note 2018A had an outstanding principal balance of \$1,915,000 and \$2,096,000 and accrued interest payable of \$16,038 and \$17,554 at June 30, 2020 and 2019, respectively.

Promissory Note 2018B

In July 2018, the District entered into a promissory note with Compass Bank in the amount of \$863,535 for the purpose of defeasing and prepaying the 2015 Compass Bank Note. The promissory note is payable in semi-annual payments of principal and interest at 4.20% commencing October 1, 2018 through and including October 1, 2024. Payments under the promissory note are secured by a lien on and pledge of net revenues. The District has covenanted to fix, prescribe, revise, and collect rates, fees, and charges for services and facilities sufficient to yield estimated net revenues equal to 125% of the aggregate amount of debt service on all parity obligations payable from net revenues coming due and payable during such fiscal year. The District had a debt service ratio of 2.09:1 and 2.41:1 for the years ended June 30, 2020 and 2019, respectively. The Promissory Note 2018B had an outstanding principal balance of \$634,875 and \$746,619 and accrued interest payable of \$6,666 and \$7,839 at June 30, 2020 and 2019, respectively.

Debt service requirements on notes payable are as follows:

<u>Years Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 623,538	\$ 267,697
2022	496,537	246,740
2023	511,751	227,914
2024	537,189	208,329
2025	553,860	187,956
2026-2030	2,059,000	691,243
2031-2035	1,383,000	387,759
2036-2039	1,315,000	103,026
Total	<u>\$ 7,479,875</u>	<u>\$ 2,320,664</u>

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 6 - Defined Benefit Pension Plan:

General Information About the Pension Plan

Plan Description - All qualified permanent and probationary employees are eligible to participate in the Miscellaneous Plan of the Borrego Water District, (All Plans) a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. The Plan consists of the miscellaneous plan and the PEPRAs Miscellaneous Plan.

Benefits Provided - The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Miscellaneous plan members with 5 years of service are eligible to retire at age 50 with statutory reduced benefits. PEPRAs Miscellaneous members with 5 years of service are eligible to retire at age 52 with statutory reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is the Basic Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees Retirement Law per contract. The Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

	<u>Miscellaneous</u> Prior to <u>January 1, 2013</u>	<u>PEPRA</u> On or After <u>January 1, 2013</u>
Benefit formula	3.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.00%	6.985%
Required employer contribution rates	13.692%	6.985%

In addition to the contribution rates above, the District was also required to make payments of \$102,385 and \$87,501 toward its unfunded actuarial liability during the years ended June 30, 2020 and 2019, respectively .

The miscellaneous plan is closed to new members that are not already CalPERS eligible participants.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 6 - Defined Benefit Pension Plan: (Continued)

General Information About the Pension Plan (Continued)

Contribution Description – Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial process. The Plans actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

The District reported the following net pension liability for its proportionate share of net position liability of the risk pool at June 30:

	Proportionate Share of Net Pension Liability <u>2020</u>	Proportionate Share of Net Pension Liability <u>2019</u>
Miscellaneous Risk Pool	\$ <u>891,132</u>	\$ <u>850,153</u>

The District’s net pension liability for each risk pool is measured as the proportionate share of each risk pool’s net pension liability. GASB 68 indicates that to the extent different contribution rates are assessed based on separate relationships that constitute the collective net pension liability, the determination of the employer’s proportionate share of the collective net pension liability should be made in a manner that reflects those relationships. The allocation method used by CalPERS to determine each employer’s proportionate share reflects those relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer’s rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

The District’s proportionate share of the net pension liability as of June 30, 2018, the valuation date, was calculated as follows:

- In determining an employer’s proportionate share, the employer rate plans included in the Plan were assigned to the miscellaneous risk pool. Estimates of the total pension liability and the fiduciary net position were first determined for the individual rate plans as of the valuation date June 30, 2018.
- Each employer rate plan’s fiduciary net position was subtracted from its total pension liability to obtain its net pension liability as of the valuation date. The District’s proportionate share percentage at the valuation date was calculated by dividing the District’s net pension liability for each of its employer rate plans by the net pension liability of the risk pool as of the valuation date.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 6 - Defined Benefit Pension Plan: (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The District's proportionate share of the net pension liability as of June 30, 2019, the measurement date, was calculated as follows:

- The risk pool's total pension liability was computed at the measurement date, June 30, 2019, by applying standard actuarial roll-forward methods to the total pension liability amounts as of the valuation date. The fiduciary net position for the risk pool at the measurement date was determined by CalPERS' Financial Office. The net pension liability for the risk pool at June 30, 2019, was computed by subtracting the respective risk pool's fiduciary net position from its total pension liability.
- The individual employer risk pool's proportionate share percentage of the total pension liability and fiduciary net position as of June 30, 2019, was calculated by applying the District's proportionate share percentage as of the valuation date (described above) to the total pension liability and fiduciary net position as of June 30, 2019, to obtain the total pension liability and fiduciary net position as of June 30, 2019. The fiduciary net position was then subtracted from total pension liability to obtain the net pension liability as of the measurement date.

The District's proportionate share percentage of the net pension liability as of June 30, 2018 and June 30, 2019 was as follows:

	Miscellaneous Risk Pool
Proportion at measurement date - June 30, 2018	0.022210%
Proportion at measurement date - June 30, 2019	0.023510%
Change - Increase (Decrease)	0.001300%

For the years ended June 30, 2020 and 2019, the District recognized a pension expense of \$230,134 and \$120,965, respectively for the Plan. As of June 30, 2020 and 2019, the District reports deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	\$ 189,335	\$ -	\$ 162,515	\$ -
Differences between actual contributions made and proportionate share of contributions	40,683	-	49,655	-
Differences between expected and actual experience	57,097	-	21,519	-
Changes of assumptions	27,430	-	73,167	-
Net difference between projected and actual earnings on pension plan investments	-	15,580	4,203	-
Adjustment due to difference in proportions	-	22,588	-	34,862
Total	\$ 314,545	\$ 38,168	\$ 311,059	\$ 34,862

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 6 - Defined Benefit Pension Plan: (Continued)

Allocation of Net Pension Liability and Pension Expense to Individual Employers (Continued)

The \$189,335 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

Measurement Period Ended June 30	Deferred Outflows/(Inflows) of Resources
2021	\$ 75,415
2022	(1,895)
2023	10,370
2024	3,152
Total	\$ 87,042

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increases	Varies by Age and Length of Service
Investment Rate of Return	7.00%
Mortality Rate Table	Derived using CalPERS' Membership Data for all funds

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 6 - Defined Benefit Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing none of the tested employer rate plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, *GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2019 based on June 30, 2018 Valuations*, that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.00% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.15%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

In the December 2016 and April 2017 meetings, the Board voted to lower the funding discount rates used for the Public Employee's Benefit Fund (PERF). In making its decision, the CalPERS Board reviewed recommendations from CalPERS team members, external pension and investment consultants, and input from employer and employee stakeholder groups. A lowered funding discount rate for the PERF will be phased in over a three-year period beginning July 1, 2018 for public agencies.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 11 years) and the long-term (60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for the Plan. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 6 - Defined Benefit Pension Plan: (Continued)

Discount Rate (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumption applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Real Return Years 1 - 10</u>	<u>Real Return Years 11+</u>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0	1.00	2.62
Inflation Assets	0.0	.77	1.8
Private Equity	8.0	6.30	7.23
Real Estate	13.0	3.75	4.93
Liquidity	1.0	0.00	(0.92)
	<u>100.00%</u>		

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability of the risk pool as of the measurement date, calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	<u>1% Decrease (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>1% Increase (8.15%)</u>
Plan's Net Pension Liability	\$ <u>1,459,822</u>	\$ <u>891,132</u>	\$ <u>421,718</u>

Note 7 - Commitments and Contingencies:

Contracts

The Borrego Water District has entered into various contracts for the purchase of material and construction of capital assets. The amounts contracted are based on the contractor's estimated cost of construction. At June 30, 2020 and 2019, the total unpaid amount on these contracts is approximately \$100,092 and \$731,167, respectively.

Litigation

Legal claims and lawsuits arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on Borrego Water District's financial position.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 7 - Commitments and Contingencies: (Continued)

Operating Leases

The District has entered into an operating lease for office equipment with a lease term in excess of one year. This agreement contains a purchase option. The agreement is a non-cancelable lease. Rent expense totaled \$4,524 and \$4,524 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments are as follows:

Years Ended June 30	Lease Payments
2021	\$ <u>377</u>

Community Facilities District No. 2017-01 2017 Special Tax Bonds

The Borrego Water District is the lead Agency of the Borrego Water District Community Facilities District No. 2007-1 (CFD 2007-1) and the Borrego Water District Community Facilities District CFD No. 2017-1 (CDF 2017-1). In April 2017, CFD 2017-1 was formed and an election held to authorize bonded indebtedness up to \$11,600,000 to refinance the outstanding balances of CFD 2007-1 special tax bonds. In May 2017, CFD 2017-1 issued Borrego Spring Water District Special Tax Refunding Bonds, Series 2017A (Series 2017A Bonds) and Borrego Water District Special Tax Refunding Bonds, Series 2017B (Series 2017B Bonds). The CFD 2007-1 special tax bonds are considered defeased.

These financings were accomplished through the authorization of special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 adopted by the Board of Directors of the Borrego Water District acting as the legislative body of the Community Facilities Districts. The bonds are only payable from certain proceeds of an annual special tax to be levied and collected from property located within the Community Facilities Districts and from certain bond proceeds pledged in the issuances. If the special taxes are not paid when due, the only source of funds to repay the bonds are cash deposits or letters of credit provided by property owners, amounts held in the bond reserve funds, or proceeds, if any, from foreclosure sales of land within the Community Facilities Districts following a delinquency in a special tax payment. Neither the faith nor credit nor the taxing power of the Borrego Water District, the State of California, or any other political subdivision thereof is pledged to the payment of these bonds. Therefore, the Community Facilities Districts are considered separate reporting entities. The following special tax bonds were outstanding at June 30:

	<u>2020</u>	<u>2019</u>
Series 2017A	\$ <u>985,000</u>	\$ <u>1,045,000</u>
Series 2017B	\$ <u>10,300,000</u>	\$ <u>10,300,000</u>

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 7 - Commitments and Contingencies: (Continued)

Coronavirus Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. On March 19, 2020, the Governor of California declared a health emergency and issued an order to close all nonessential businesses until further notice. For the health and safety of its customers and staff, the District closed its office to the public and implemented extra workplace precautions and conducted pre-scheduled customer assistance appointments as necessary. The potential impacts to the District include disruptions or restrictions on employees' ability to work and limitations on in-person services. In addition, there has been significant volatility in the financial markets, which may have an impact on the District's ability to borrow funds. Changes to the operating environment may also be impacted, and may have an impact on operating costs. The future effects of these issues are unknown.

Note 8 - New Governmental Accounting Standards:

GASB No. 83

In November 2016, the Governmental Accounting Standards Board issued Statement No. 83 "Certain Asset Retirement Obligations". The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier Application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 84

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84 "Fiduciary Activities". The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier Application is encouraged. The effective date of this pronouncement has been postponed by 12 months by GASB Statement No. 95. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 87

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87 "Leases". The requirements of this Statement were effective for reporting periods beginning after December 15, 2019. The effective date of this pronouncement has been postponed by 18 months by GASB Statement No. 95. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 88

In April 2018, the Governmental Accounting Standards Board issued Statement No. 88 "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements". The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 8 - New Governmental Accounting Standards: (Continued)

GASB No. 89

In June 2018, the Governmental Accounting Standards Board issued Statement No. 89 “Accounting for Interest Cost Incurred before the End of a Construction Period”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The District has elected to implement this pronouncement and has not capitalized any interest cost in the year ended June 30, 2020.

GASB No. 90

In August 2018, the Governmental Accounting Standards Board issued Statement No. 90 “Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The effective date of this pronouncement has been postponed by 12 months by GASB Statement 95. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 91

In May 2019, the Governmental Accounting Standards Board issued Statement No. 91 “Conduit Debt Obligations”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. The effective date of this pronouncement has been postponed by 12 months by GASB Statement 95. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 92

In January 2020, the Governmental Accounting Standards Board issued Statement No. 92 “Omnibus 2020”. The requirements of this statement are effective at various dates up to and including fiscal years and reporting periods beginning after June 15, 2021. The effective date of this pronouncement has been postponed by 12 months by GASB Statement 95. This pronouncement did not and is not expected to have a material effect on the financial statements of the District in the year of implementation.

GASB No. 93

In March 2020, the Governmental Accounting Standards Board issued Statement No. 93 “Replacement of Interbank Offered Rates”. The requirements of this statement are effective at various dates up to and including reporting periods ending after December 31, 2021. The effective date of this pronouncement has been postponed by 12 months by GASB Statement 95. This pronouncement is not expected to have a material effect on the financial statements of the District in the year of implementation.

**BORREGO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

Note 8 - New Governmental Accounting Standards: (Continued)

GASB No. 94

In March 2020, the Governmental Accounting Standards Board issued Statement No. 94 “Public - Private and Public - Public Partnerships and Availability Payment Arrangements”. The requirements of this statement are effective for fiscal years beginning after June 15, 2022. The effective date of this pronouncement has been postponed by 12 months by GASB Statement 95. As used in this pronouncements these Partnerships are an arrangement in which the government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset such as infrastructure or other capital assets for a period of time in an exchange or an exchange-like transaction. The statement also provides guidance on accounting and financial reporting for availability payment arrangements in which the government compensates the operator for services that may include the designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The District has not yet determined the effects of this pronouncement on the financial statements in the year of implementation.

GASB No. 95

In May 2020, the Governmental Accounting Standards Board issued Statement No. 95 “Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing for one year the effective dates of GASB Statements 83, 84, 88 – 93 as well as implementation guides 2018-1, 2019-1 and 2019-2. In addition, the effective dates of GASB Statement 87 and Implementation Guide 2019-3 have been postponed by 18 months.

GASB No. 96

In May 2020, the Governmental Accounting Standards Board issued Statement No. 96 “Subscription-Based Information Technology Arrangements (SBITA’s). This Statement (1) defines SBITA’s (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset- and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including the implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this statement are effective for fiscal years beginning after June 15, 2022 and all reporting periods thereafter. Earlier application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**BORREGO WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020**

**SCHEDULES OF PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS ***

	Measurement Date <u>June 30, 2019</u>	Measurement Date <u>June 30, 2018</u>	Measurement Date <u>June 30, 2017</u>	Measurement Date <u>June 30, 2016</u>	Measurement Date <u>June 30, 2015</u>	Measurement Date <u>June 30, 2014</u>
Proportion of the Net Pension Liability	0.022253 %	0.022558 %	0.023133 %	0.009466 %	0.01010 %	0.01123 %
Proportionate Share of the Net Pension Liability	\$ 891,132	\$ 850,153	\$ 911,898	\$ 819,059	\$ 693,352	\$ 699,055
Covered - Payroll - Measurement Period	\$ 740,131	\$ 698,023	\$ 675,819	\$ 658,514	\$ 671,180	\$ 595,422
Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll	120.40 %	121.79 %	134.93 %	124.38 %	103.30 %	117.41 %
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.92 %	77.34 %	74.72 %	73.72 %	77.21 %	73.72 %

Notes to Schedule:

Change in Benefit Terms - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact.

Changes in Assumptions - The discount rate was changed from 7.50% in 2015 to 7.65% in 2016 and 2017 and to 7.65% in 2018.

Omitted Years - GASB Statement No 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

**BORREGO WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020**

**SCHEDULES OF CONTRIBUIONS TO THE PENSION PLAN
LAST TEN YEARS ***

	<u>Fiscal Year 2019 - 2020</u>	<u>Fiscal Year 2018 - 2019</u>	<u>Fiscal Year 2017 - 2018</u>	<u>Fiscal Year 2016 - 2017</u>	<u>Fiscal Year 2015 - 2016</u>	<u>Fiscal Year 2015</u>
Contractually Required Contribution (Actuarially determined)	\$ 189,335	\$ 162,515	\$ 142,789	\$ 137,737	\$ 138,613	\$ 129,138
Contributions in Relation to the Actuarially determined Contribution	<u>(189,355)</u>	<u>(162,515)</u>	<u>(142,789)</u>	<u>(137,737)</u>	<u>(138,613)</u>	<u>(129,138)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>				
Covered Payroll - Fiscal Year	\$ 850,749	\$ 740,131	\$ 698,023	\$ 723,125	\$ 671,180	\$ 595,422
Contributions as a Percentage of Covered Payroll	22.26 %	21.96 %	20.46 %	10.05 %	20.65 %	21.69 %

Notes to Schedule:

Valuation Date:	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
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	<u>2019 - 2020</u>	<u>2018 - 2019</u>	<u>2016 - 2017</u>	<u>2015</u>
Valuation Cost Method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization Method	Level percent of payroll			
Asset Valuation Method	Market Value	Market Value	Market Value	Market Value
Discount Rate	7.15%	7.15%	7.65%	7.5%
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%	2.75%	2.75%	2.75%
Payroll Growth	3.00%	3.00%	3.00%	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25%

Omitted Years - GASB Statement No. 68 was implemented during the year ended June 30, 2015, thus information prior to this date was not presented.

**BORREGO WATER DISTRICT
SCHEDULES OF ASSESSED VALUATION
FOR THE YEAR ENDED JUNE 30, 2020**

The assessed valuation of the District at June 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Assessed Valuation:		
Secured property	\$ 364,370,749	\$ 352,961,472
Total Assessed Valuation	<u>\$ 364,370,749</u>	<u>\$ 352,961,472</u>

DRAFT

BORREGO WATER DISTRICT
BOARD OF DIRECTORS MEETING
JANUARY 12, 2021
AGENDA ITEM II.B

January 5, 2021

TO: Board of Directors

FROM: Geoffrey Poole, General Manager and David Dale, District Engineer

SUBJECT: Overview of Risk Issues Facing BWD – L Brecht

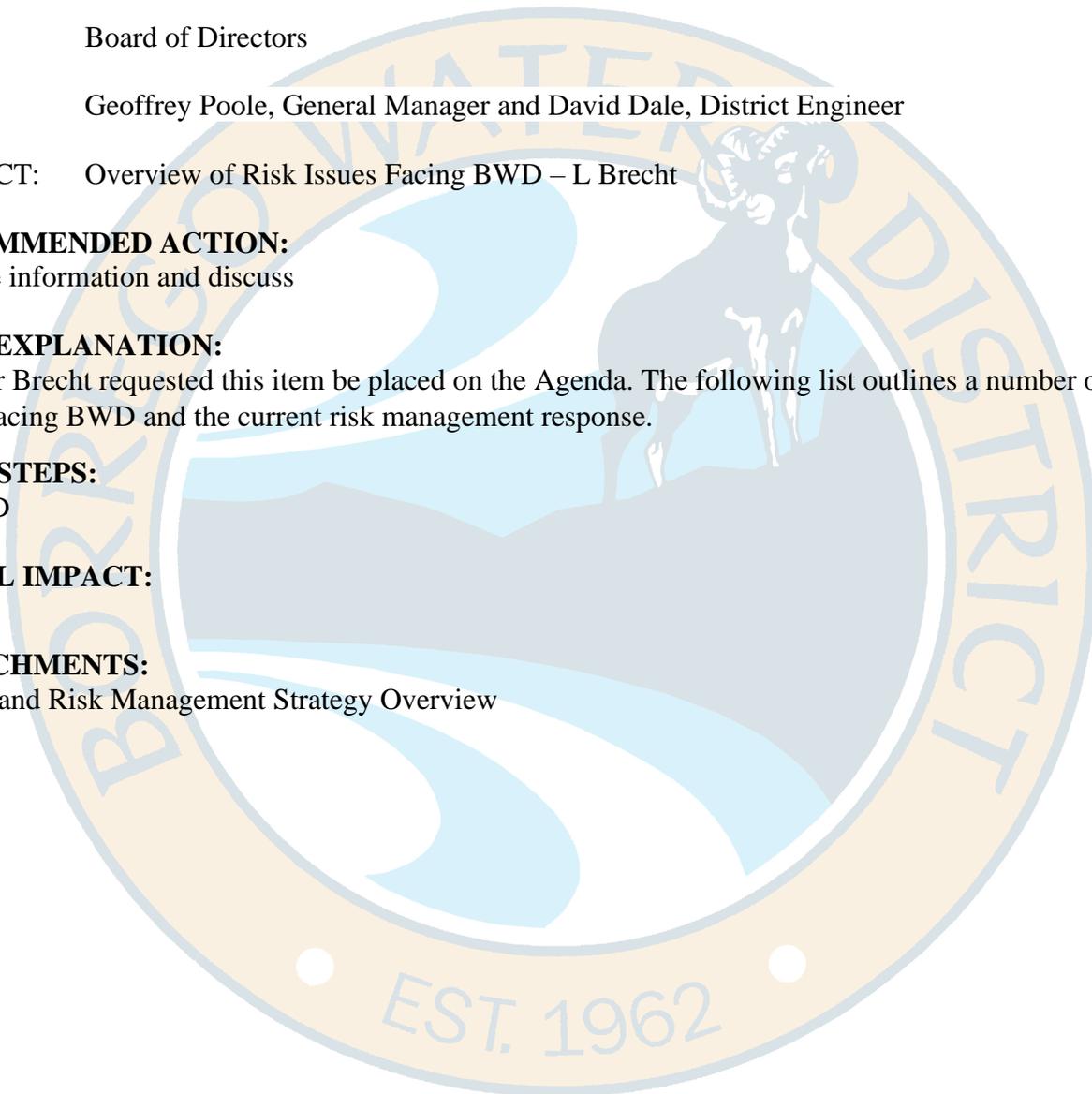
RECOMMENDED ACTION:
Receive information and discuss

ITEM EXPLANATION:
Director Brecht requested this item be placed on the Agenda. The following list outlines a number of risk issues facing BWD and the current risk management response.

NEXT STEPS:
1. TBD

FISCAL IMPACT:
TBD

ATTACHMENTS:
1. Risk and Risk Management Strategy Overview



FINANCIAL RISK¹ MANAGEMENT² ISSUES BY RISK PRIORITY

Components of a useful risk management policy:

- budget for data acquisition necessary to improve probability assessment of a known adverse event occurring and/or financial consequences should that event occur;
 - earmarked cash reserves necessary to mitigate the risk, and/or
 - adequate insurance to insure against the risk
- 1) Risk to municipal water supply distribution system from deferred R&R that results in catastrophic loss of service and materially increased costs for R&R. Risk = \$5.4M (90% P x \$6.0M of excess costs over costs in R&R is performed in a timely fashion [around the economically useful life of the asset]);
 - 2) Sewer & WWTP R&R financial shortfalls risk. Risk = \$4.0M (100% P x \$4.0M = \$4.0M);
 - 3) Basin water levels risk to existing BWD production wells from improper reductions to 2040 sustainable yield, Risk = \$3.0M (50% P x \$6M for 3 wells = \$3.0M);
 - 4) Risk to PV of BWD's future revenue stream resulting from loss of \$1B viewshed due to dust pollution caused by *physical solution's* following standards. Risk = \$1.6M (4% P x \$40.0M = \$1.6M);
 - 5) Basin water quality risk to existing and future BWD production wells from improper reductions to 2040 sustainable yield. Risk = \$1.2M (3% P x \$40.0M worst case for basin-wide degradation = \$1.2M);
 - 6) RH flood risk management facility failure due to increased probability from flooding from Anthropogenic Climate Disruption and need for upgraded flood control standards since RH facility was built in the 1980's. Risk = \$1.0M (1% P x \$100.0M = \$1.0M);
 - 7) BWD production wells risk from improperly abandoned wells in Subbasin. Risk = \$0.2M (10% P x \$2.0M = \$0.2M)
 - 8) Risk from hacking of BWD networks. Risk = \$0.2M (40% P x \$0.5M = \$0.2M)
 - 9) Risk of BWD needing to conduct its own independent risk analysis from SDCWA's choice of Route 3A through Borrego for RCS route. Risk = \$0.1M (50% P x \$0.2M = \$0.1M)

¹ Financial Risk = sum (probability of an event occurring x the financial consequences if that event occurs)

² Financial Risk Management = the steps taken to ameliorate risk and to mitigate the consequences if the risk event comes to pass.

RISK ISSUES AND RISK¹ MANAGEMENT² STRATEGY BY PRIORITY

- 1) Risk to municipal water supply distribution system from deferred R&R that results in catastrophic loss of service and materially increased costs for R&R. Risk = \$5.6M (90% P x \$6.0M). Provisions made in long term CIP for extensive distribution system repairs.
- 2) WWTP Capacity Expansion financial shortfalls risk. Risk = \$3.65 M (\$4M – Remaining TSC EDUs = \$.365 M – 500 EDUs @ \$712). Funding sources under evaluation
- 3) WWTP R&R financial shortfalls risk. Risk = \$4.0M (100% P x \$4.0M = \$4.0M). Funding sources under evaluation
- 4) Basin water levels risk to BWD production wells from improper reductions to 2040 sustainable yield, Risk = \$3.0M (50% P x \$6M for 3 wells = \$3.0M). Monitor the situation and proactively plan for funding (grants/loans/charges).
- 5) Basin water quality risk to BWD production wells from improper reductions to 2040 sustainable yield. Risk = \$1.2M (3% P x \$40-0M worst case for basin-wide degradation = \$1.2M). Monitor the situation and proactively plan for funding (grants/loans/charges).
- 6) Risk to property values from air pollution caused by *physical solution's* following standards. Risk = \$2.0M (10% P x \$20.0M = \$2.0M). BWD continues to monitor air quality in the Basin as part of developing baseline data.
- 7) RH flood risk management facility failure due to Anthropogenic Climate Disruption and changing flood control standards since RH facility was built. Risk = \$1.0M (1% P x \$100.0M = \$1.0M). BWD in the process of obtaining quote for coverage.
- 8) Risk from improperly abandoned wells in Subbasin. Risk = \$1.0M (50% P x \$2.0M = \$1.0M) Monitor the situation and proactively plan for funding (grants/loans/charges).
- 9) Risk from hacking of BWD networks. Risk = \$0.5M (50% P x \$1.0M = \$0.5M). Coverage for losses provided by BWD Insurance Carrier. BWD employs 3rd party vulnerability assessments every quarter and multiple back ups of software and files.
- 10) Risk of BWD needing to conduct its own independent risk analysis from SDCWA's choice of Route 3A through Borrego for RCS route. Risk = \$0.1M (50% P x \$0.2M = \$0.1M). BWD continues to monitor the Project and will provide input as needed through the process.

¹ Risk = sum (probability of an event occurring x the financial consequences if that event occurs)

² Risk Management = the steps taken to ameliorate risk and to mitigate the consequences if the risk event comes to pass. Primary risk management strategies typically involve, at a minimum: data collection to determine if we have our probabilities and financial consequences right, reserves policy, and insurance.

BORREGO WATER DISTRICT
BOARD OF DIRECTORS MEETING
JANUARY 12, 2021
AGENDA ITEM II.C

January 5, 2021

TO: Board of Directors

FROM: Geoffrey Poole, General Manager

SUBJECT: Letter of Support from BWD for a grant application to the Bureau of Reclamation, from the Borrego Valley Endowment Fund, under the BuRec Cooperative Watershed Management Program

RECOMMENDED ACTION:
Receive information and discuss

ITEM EXPLANATION:
Director Johnson requested this item be placed on the Agenda.

Consider providing a Letter of Support from BWD for a grant application to the Bureau of Reclamation, from the Borrego Valley Endowment Fund, under the BuRec Cooperative Watershed Management Program.

NEXT STEPS:

1. TBD

FISCAL IMPACT:

TBD

ATTACHMENTS:

1. Information from the Bureau of Reclamation, Cooperative Watershed Management Program, grant opportunity to facilitate the formation of a Watershed Group

Bureau of Reclamation, Cooperative Watershed Management Program, grant opportunity to facilitate the formation of a Watershed Group

From the Funding Opportunity Document, found at <https://www.grants.gov/web/grants/view-opportunity.html?oppld=329878>

Through the Cooperative Watershed Management Program (CWMP), Reclamation provides funding to watershed groups to encourage diverse stakeholders to form local solutions to address their water management needs. By providing this funding Reclamation promotes water reliability and cooperation between stakeholders to reduce conflict, facilitate solutions to complex water issues, and stretch limited water supplies.

This Funding Opportunity Announcement (FOA) provides funding to watershed groups for Phase I projects for watershed group development and restoration planning.

From Diane Johnson: Rather than quote the general language of the Document, here are sections from a successful grant application done last year by a small irrigation district in SE California near Yuma. I believe this will give a more concrete idea of what this work entails – the effort here might include only Task A from below.

https://www.usbr.gov/watersmart/cwmp/docs/2019/applications/CWMP1%20-%2020012%20Bard%20Water%20District_508.pdf

The Bard Water District (BWD) is applying for this funding opportunity to complete:
Task A (Development of a Watershed Group -5/5 Tasks) FY 2019 and continue with
Task B (Watershed Restoration Planning -4/7 Tasks) FY 2020.

For Task A, the funds will be used for the following specific tasks and activities

- Assign a BWD Employee as Watershed Group Coordinator/Facilitator for outreach to stakeholders
- Develop a Mission Statement, Vision Statement, and Goals for the new Watershed Group
- Prepare Outreach Plan, Prepare Informational Materials (e.g., Newsletter/Blog, correspondence, emails, brochures, flyers, advertisements, website, videos) visits/presentation to potential participants, stakeholder meetings, establish broadbased diverse membership.
- Conduct outreach Activities organize the group and coordinate activities (communication, presentations, updates, recruit of members, partnerships, etc.).
- Legal counsel/support for group structure, articles of incorporation and by-laws.
- Research/contact with government agencies and U of A to gather information about issues, water data, other technical reports and information.
- Coordinate pre-planning activities for Task B including outlining a watershed restoration plan, researching existing plans, collecting Baseline information and identifying restoration needs.

For Task B, the funds will be used for the following specific tasks and activities.

- Identify site boundaries and jurisdiction through mapping and GIS software.
- Interview watershed group members and stakeholders to gain an idea of projects that would improve the watershed.
- Create a matrix for identifying and prioritizing projects within the Watershed.
- Developing a draft Watershed Restoration Plan .

This project contributes to the goals of developing a Watershed Group and a Restoration Plan to create community partnerships, establishing a legacy of stewardship between a diverse community group to protect and preserve our watersheds.

The project will take place over a 2-Year period : Task A (18 Months) and Task B (6 Months). The proposed project will take place within the **Yuma Project Reservation District (1931)**, on the Lower Colorado River Watershed . It will take place on a federal facility.

Schedule of Major Tasks, Milestones and Costs

¹Start First of Month, End last of **Task A: Development of a Watershed Group (Year 1.5)**

Month¹ Tasks	Milestones/Documentation	Costs²
1 Coordinator/Facilitator Designated from May BWD	Person Designated	\$0
2-4 By Laws, Mission Statement, Articles of Jun-Aug Incorporation	Required Documents & Formal Notifications	\$7500
3-7 Outreach Plan, Outreach and Recruitment Jul-Nov Member Qualifications & Selection	Contact List and Outreach Documents Calls and Visits	\$7500
8-10 Preliminary Meetings/Planning Dec-Feb Group Meetings	List of Participants & Roles Calls and Visits	\$7500
8-12 Gather Reports, Information and Data Dec-Apr	List of References	\$1000 0
11-6 Public Meetings and Discussions Dec-Oct	2-4 Meetings Agenda, Attendance	\$1000 0
1-4 General Policies and Goals May-Aug Identify First Project Site	Written Guide or Policy	\$7500
5-6 Final Contact List Sep-Oct Schedule Monthly Meetings, Notifications, Information, Flyers, email, Newsletter	Newsletter	\$1000 0

Task B: Watershed Restoration Planning (Year .5)

Month¹ Tasks	Milestones/Documentation	Costs²
7-8 Define Boundaries of Watershed Area and Nov-Dec Identify Sites	Map of Boundaries and Proposed Sites	\$5000
7-9 Interview Stakeholders, Conduct Nov-Mar meetings, plan review, discussion, recommendations	Contact List Meetings: Announcements, Agenda, Attendance, Notes	\$7500
7-9 Create Operational Matrix for Identifying Jan-Mar and Prioritizing Projects within the Watershed	Operational Matrix Meetings, Discussions, Collaboration	\$7500
9-12 Prepare Draft Restoration Management Jan-Apr Plan	Draft Plan	\$5000

BORREGO WATER DISTRICT
BOARD OF DIRECTORS MEETING
JANUARY 12, 2021
AGENDA ITEM II.D

January 5, 2021

TO: Board of Directors

FROM: Geoffrey Poole, General Manager and David Dale, District Engineer

SUBJECT: Resolution No. 2021-0-01 Authorizing the General Manager to execute the 100% CONSTRUCTION LOAN FORGIVENESS AGREEMENT: NO. SWRCBD2001017 BY AND BETWEEN BORREGO WATER DISTRICT AND CALIFORNIA STATE WATER RESOURCES CONTROL BOARD FOR THE PURPOSE OF THE WASTEWATER TREATMENT PLANT UPGRADE PROJECT: C-06-8199-110

RECOMMENDED ACTION:

Approve Resolution

ITEM EXPLANATION:

BWD has been approved for a \$478,000 Grant to rehab the two clarifiers and the headworks at the Waste Water Treatment Plant (WWTP). Attached is the BWD Resolution and Agreement with the State of California Water Boards.

NEXT STEPS:

1. Amend if Needed and Execute Agreement

FISCAL IMPACT:

\$478,000 reimbursement from Water Boards

ATTACHMENTS:

1. Resolution and Agreement

RESOLUTION NO. 2021-01-01

RESOLUTION OF THE BOARD OF DIRECTORS OF BORREGO WATER DISTRICT AUTHORIZING APPROVING THE EXECUTION AND DELIVERY OF A CONSTRUCTION LOAN AGREEMENT WITH THE CALIFORNIA STATE WATER RESOURCES CONTROL BOARD; AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Borrego Water District (the “District”) a water district duly organized and existing under and pursuant to the Constitution and laws of the State of California, is authorized under provisions of the Constitution and laws of the State of California, and in accordance therewith, to incur indebtedness; and

WHEREAS, the District has applied for and obtained funding from the California State Water Resources Control Board (the “State Water Board”) under the Water Quality, Supply and Infrastructure Improvement Act of 2014 (Proposition 1) to provide the funds needed to pay for its wastewater treatment plant upgrade project (the “Project”); and

WHEREAS, in connection therewith, the District must enter into a loan agreement with the State Water Board; and

WHEREAS, there has been presented to this meeting the Construction Loan 100% Principal Forgiveness Agreement No. SWRCB0000000000D2001017 between the District and the State Water Board (the “Agreement”); and; and

WHEREAS, the Agreement is necessary to accomplish the distribution of loan proceeds to the District to fund the Project; and

WHEREAS, all acts, conditions and things required by the Constitution and laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the entering into of the documents described above.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED BY THE BOARD OF DIRECTORS OF THE BORREGO WATER DISTRICT AS FOLLOWS:

SECTION 1. The District hereby specifically finds and declares that the statements, findings and determinations of the District set forth in the preambles of the documents approved herein are true and correct.

SECTION 2. The Agreement is hereby approved and each of the President, the General Manager, and their written designees (each an “Authorized Officer” and together, the “Authorized Officers”), acting alone, is hereby authorized and directed to execute and deliver the Agreement in the name of and on behalf of the District, in substantially the form now before this meeting, but with such changes, modifications, additions and deletions therein as shall be deemed necessary, desirable or appropriate by the Authorized Officer or Authorized Officers. Approval of any such changes, modifications, additions and deletions shall be conclusively evidenced by the execution and delivery of the Agreement by one or more Authorized Officers.



State Water Resources Control Board

December 23, 2020

Borrego Water District
Attn: Geoff Poole – General Manager
P.O. Box 1870
Borrego Springs, CA 92004

Agreement Number: SWRCB0000000000D2001017
Project Number: C-06-8199-110

Enclosed is your Agreement for your approval and signature. This Agreement cannot be considered binding by either party until executed by the State Water Resources Control Board (State Water Board).

If you are in agreement with all terms and conditions of the Agreement, please sign and date **two (2) signature** pages; return only the two (2) signature pages – it is not necessary to send the entire Agreement - **no later than thirty (30) calendar days from the date of this letter to:**

Overnight Mail

Amor Moskaira
State Water Resources Control Board
Division of Financial Assistance
1001 I Street, 16th Floor
Sacramento, CA 95814

US Mail

Amor Moskaira
State Water Resources Control Board
Division of Financial Assistance
P. O. Box 944212
Sacramento, CA 94244-2120

In order for the Funding Agreement to be executed by the State Water Board, the following items must also be returned with the signed signature pages:

1. Opinion of General Counsel.

Be aware that all projects receiving funding must comply with all applicable implementing guidelines and regulations adopted by California Department of Industrial Relations (DIR), regarding state prevailing wage requirements. You must contact DIR for guidance on how to comply. Information can be found at: <http://www.dir.ca.gov/lcp.asp>.

Davis Bacon Compliance:

https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/davisbacon.shtml

Disadvantaged Business Enterprise (DBE)

https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/policy0513/dbe_compliance_guidelines_instructions.pdf

E. JOAQUIN ESQUIVEL, CHAIR | EILEEN SOBECK, EXECUTIVE DIRECTOR



GAVIN NEWSOM
GOVERNOR



JARED BLUMENFELD
SECRETARY FOR
ENVIRONMENTAL PROTECTION

Ms. Moskaira may be contacted at Amor.Moskaira@waterboards.ca.gov

Once the Agreement is signed by both parties, we will forward an executed copy to you for your records.

Enclosures

E. JOAQUIN ESQUIVEL, CHAIR | EILEEN SOBECK, EXECUTIVE DIRECTOR

1001 I Street, Sacramento, CA 95814 | Mailing Address: P.O. Box 100, Sacramento, CA 95812-0100 | www.waterboards.ca.gov



CLEAN WATER SMALL COMMUNITY

CONSTRUCTION LOAN 100% PRINCIPAL FORGIVENESS

AGREEMENT NO. SWRCB0000000000D2001017

BY AND BETWEEN

BORREGO WATER DISTRICT ("RECIPIENT")

AND

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
("STATE WATER BOARD")

FOR THE PURPOSE OF THE

WASTEWATER TREATMENT PLANT UPGRADE ("PROJECT")

PROJECT NO. C-06-8199-110

SECTION 13475 ET SEQ. OF THE WATER CODE, AND RESOLUTION NOS. 2020-0023 AND
2019-0064.

PROJECT FUNDING AMOUNT: \$478,000
PRINCIPAL FORGIVENESS COMPONENT: \$478,000
ESTIMATED REASONABLE PROJECT COST: \$478,000

ELIGIBLE WORK START DATE: NOVEMBER 4, 2014
ELIGIBLE CONSTRUCTION START DATE: SEPTEMBER 24, 2020
CONSTRUCTION COMPLETION DATE: DECEMBER 12, 2021
FINAL REIMBURSEMENT REQUEST DATE: JUNE 12, 2022
RECORDS RETENTION END DATE: DECEMBER 12, 2057

1. The State Water Board and the Recipient mutually promise, covenant, and agree to the terms, provisions, and conditions of this Agreement, including the following Exhibits, which are attached hereto or are incorporated by reference:
 - Exhibit A – Scope of Work and Schedule
 - Exhibit B – Specific Funding Provisions
 - Exhibit C – General Terms and Conditions 2019-Nov
 - Exhibit D – Special Conditions

2. The following documents are also incorporated by reference:
 - [Reserved];
 - the Waste Discharge Requirement Order No. R7-2019-0015
 - the Davis-Bacon requirements found at:
https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/davisbacon/davis-bacon_2020_cwsrf-governmental_entities_public.pdf

Party Contacts during the term of this Agreement are:

State Water Board		Borrego Water District	
Section:	Division of Financial Assistance		
Name:	Joseph Quilatan, Project Manager	Name:	Geoff Poole, General Manager
Address:	1001 I Street, 16th Floor	Address:	806 Palms Canyon Drive
City, State, Zip:	Sacramento, CA 95814	City, State, Zip:	Borrego Springs, CA 92004
Phone:	(916) 322-9671	Phone:	(760) 767-5806
Email:	Joseph.Quilatan@waterboards.ca.gov	Email:	Geoff@borregowd.org

Each party may change its contact upon written notice to the other party. While Party Contacts are contacts for day-to-day communications regarding Project work, the Recipient must provide official communications and notices to the Division's Deputy Director.

3. Conditions precedent to this Agreement are set forth as follows:
 - (a) The Recipient must deliver an opinion of general counsel satisfactory to the State Water Board's counsel dated on or after the date that the Recipient signs this Agreement.

4. The Recipient represents, warrants, and commits to the following as of the Eligible Work Start Date and continuing thereafter for the term of this Agreement, which shall be at least until the Records Retention End Date:
 - (a) The Recipient agrees to comply with all terms, provisions, conditions, and commitments of this Agreement, including all incorporated documents.

 - (b) The execution and delivery of this Agreement, including all incorporated documents, has been duly authorized by the Recipient. Upon execution by both parties, this Agreement constitutes a valid and binding obligation of the Recipient, enforceable in accordance with its terms, except as such enforcement may be limited by law.

- (c) None of the transactions contemplated by this Agreement will be or have been made with an actual intent to hinder, delay, or defraud any present or future creditors of Recipient. The Recipient is solvent and will not be rendered insolvent by the transactions contemplated by this Agreement. The Recipient is able to pay its debts as they become due. The Recipient maintains sufficient insurance coverage considering the scope of this Agreement, including, for example but not necessarily limited to, general liability, automobile liability, workers compensation and employer liability, professional liability.
- (d) The Recipient is in compliance with all State Water Board funding agreements to which it is a party.

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto.

BORREGO WATER DISTRICT:

By: _____
Name: Geoff Poole
Title: General Manager

Date: _____

STATE WATER RESOURCES CONTROL BOARD:

By: _____
Name: Leslie Laudon
Title: Deputy Director
Division of Financial Assistance

Date: _____

EXHIBIT A – SCOPE OF WORK AND SCHEDULE

A.1 PROJECT PURPOSE AND DESCRIPTION.

The Project is for the benefit of the Recipient and has a Useful Life of at least forty (40) years.

The funding under this Agreement shall be used to rehabilitate and upgrade critical components of the Recipient's wastewater treatment plant to comply with Discharge Requirements.

A.2 SCOPE OF WORK.

The Recipient agrees to do the following:

The Recipient will upgrade and rehabilitate its wastewater treatment plant's headworks, oxidation ditch, secondary clarifier, and waste sludge aerobic/digester/sludge holding tank. Specifically, the Recipient will complete the following:

- Headworks – Replace existing air-lift system with a fluid pumping system capable of pumped settled grit and solids from the bottom of the grit chamber to the separator.
- Oxidation Ditch – Replace decanting level control unit.
- Secondary Clarifier – Replace skimmer/scrapper arms, main drive units, and sandblast/recoat piping.
- Waste Sludge Aerobic/Digester/Sludge Holding Tank – Replace diffusers and isolation valves.

Upon Completion of Construction, the Recipient must expeditiously initiate Project operations.

A.3 SIGNAGE.

The Recipient must place a professionally prepared sign at least four feet tall by eight feet wide made of ¾ inch thick exterior grade plywood or other approved material in a prominent location on the Project site and must maintain the sign in good condition for the duration of Project implementation. The sign may include another agency's required information and must include, prominently displayed, the following disclosure statement and color logos (available from the Division):



"Funding for Wastewater Treatment Plant Upgrade Project has been provided in full or in part by the Clean Water State Revolving Fund through an agreement with the State Water Resources Control Board. California's Clean Water State Revolving Fund is capitalized through a variety of funding sources, including grants from the United States Environmental Protection Agency and state bond proceeds."

A.4 SCHEDULE

Failure to provide items by the due dates indicated in the table below may constitute a material violation of this Agreement. The Project Manager may adjust the dates in the "Estimated Due Date" column of this table, but Critical Due Date adjustments will require an amendment to this Agreement. The Recipient

must complete and submit all work in time to be approved by the Division prior to the Project Completion Date. As applicable for specific submittals, the Recipient must plan adequate time to solicit, receive, and address comments prior to submitting the final submittal. The Recipient must submit the final Reimbursement Request prior to the Final Reimbursement Request Date set forth on the Cover Page.

ITEM	DESCRIPTION OF SUBMITTAL	CRITICAL DUE DATE	ESTIMATED DUE DATE
EXHIBIT A – SCOPE OF WORK			
ADDITIONAL SUBMITTAL(S) TO DIVISION			
1.	Final Plans and Specifications		November 1, 2020
2.	Final Budget Approval Package		January 28, 2021
3.	Completion of Construction	December 12, 2021	
4.	Final Inspection and Certification		December 12, 2021
REPORTS			
1.	Progress Reports		Quarterly
2.	Project Completion Report		June 12, 2022
EXHIBIT B – FUNDING AMOUNTS			
REIMBURSEMENTS			
1.	Reimbursement Requests		As Needed
2.	Final Reimbursement Request		June 12, 2022

(a) The Recipient must award the prime construction contract and begin construction timely. The Recipient must deliver any request for extension of the Completion of Construction Date no less than 90 days prior to the Completion of Construction Date.

(b) The Division may require corrective work to be performed prior to Project Completion. Any work occurring after the Work Completion Date will not be reimbursed under this Agreement.

A.5 PROGRESS REPORTS.

The Recipient must provide a progress report to the Division each quarter, beginning no later than 90 days after execution of this Agreement. The Recipient must provide a progress report with each reimbursement request. Failure to provide a complete and accurate progress report may result in the withholding of Project Funds. A progress report must contain the following information:

- 1) A summary of progress to date including a description of progress since the last report, percent construction complete, percent contractor invoiced, and percent schedule elapsed;
- 2) A description of compliance with environmental requirements;
- 3) A listing of change orders including amount, description of work, and change in contract amount and schedule; and

- 4) Any problems encountered, proposed resolution, schedule for resolution, and status of previous problem resolutions.

A.6 PROJECT COMPLETION REPORT.

(a) The Recipient must submit a Project Completion Report to the Division with a copy to the appropriate Regional Water Board on or before the due date established by the Division and the Recipient at the time of final project inspection. The Project Completion Report must include the following:

- i. Description of the Project,
- ii. Description of the water quality problem the Project sought to address,
- iii. Discussion of the Project's likelihood of successfully addressing that water quality problem in the future, and
- iv. Summary of compliance with applicable environmental conditions.

(b) If the Recipient fails to submit a timely Project Completion Report, the State Water Board may stop processing pending or future applications for new financial assistance, withhold reimbursements under this Agreement or other agreements, and begin administrative proceedings.

A.7 FINAL PROJECT INSPECTION AND CERTIFICATION.

Upon completion of the Project, the Recipient must provide for a final inspection and must certify that the Project has been completed in accordance with this Agreement, any final plans and specifications submitted to the State Water Board, and any amendments or modifications thereto. If the Project involves the planning, investigation, evaluation, design, or other work requiring interpretation and proper application of engineering, or other professionals, the final inspection and certification must be conducted by a California Registered Civil Engineer or other appropriate California registered professional. The results of the final inspection and certification must be submitted to the Project Manager.

A.8 DBE REPORTS FOR STATE REVOLVING FUND PROJECTS

The Recipient must report DBE utilization to the Division on the DBE Utilization Report, State Water Board Form DBE UR334. The Recipient must submit such reports to the Division annually within ten (10) calendar days following October 1 until such time as the "Notice of Completion" is issued. The Recipient must comply with 40 CFR § 33.301 and require its contractors and subcontractors on the Project to comply.

EXHIBIT B – FUNDING AMOUNTS

B.1 ESTIMATED REASONABLE COST AND PROJECT FUNDS.

The estimated reasonable cost of the total Project is set forth on the Cover Page of this Agreement, and is greater than or equal to the funding anticipated to be provided by the State Water Board under this Agreement.

Subject to the terms of this Agreement, the State Water Board agrees to provide Project Funds not to exceed the amount of the Project Funding Amount set forth on the Cover Page of this Agreement.

B.2 RECIPIENT CONTRIBUTIONS.

The loan component of this Agreement is forgiven. The estimated amount of principal that will be due to the State Water Board from the Recipient under this Agreement is Zero dollars and no cents (\$0.00).

The Recipient must pay any and all costs connected with the Project including, without limitation, any and all Project Costs. If the Project Funds are not sufficient to pay the Project Costs in full, the Recipient must nonetheless complete the Project and pay that portion of the Project Costs in excess of available Project Funds, and shall not be entitled to any reimbursement therefor from the State Water Board.

B.3 VERIFIABLE DATA.

Upon request by the Division, the Recipient must submit verifiable data to support deliverables specified in the Scope of Work. The Recipient's failure to comply with this requirement may be construed as a material breach of this Agreement.

B.4 BUDGET COSTS

(a) Estimated budget costs are contained in the Summary Project Cost Table below:

BUDGET COST TABLE		
LINE ITEM	TOTAL ESTIMATED COST	PROJECT FUNDING AMOUNT
A. Construction	\$428,900	\$428,900
B. Pre-Purchased Material/Equipment	\$0	\$0
C. Land Purchase	\$0	\$0
D. Change Order Contingency	\$0	\$0
E. Allowances	\$49,100	\$49,100
TOTAL	\$478,000	\$478,000

The Division's Final Budget Approval and related Form 259 and Form 260 and Form 261 will document a more detailed budget of eligible Project Costs and Project funding amounts.

Reasonable indirect costs may be allowable upon approval by the Division.

The Recipient is prohibited from requesting disbursement amounts that represent Recipient's mark ups to costs invoiced or otherwise requested by consultants or contractors.

B.5 LINE ITEM ADJUSTMENTS

Upon written request by the Recipient, the Division may adjust the line items of the Summary Project Cost Table at the time of Division's Final Budget Approval. Upon written request by the Recipient, the Division may also adjust the line items of the Summary Project Cost Table as well as the detailed budget at the time of Recipient's submittal of its final claim. Any line item adjustments to the Summary Project Cost Table that are due to a change in scope of work will require an Agreement amendment. The sum of adjusted line items in both the Summary Project Cost Table and the detailed budget must not exceed the Project Funding Amount. The Division may also propose budget adjustments.

Under no circumstances may the sum of line items in the Final Budget Approval exceed the Project Funding Amount.

B.6 REIMBURSEMENT PROCEDURE.

Except as may be otherwise provided in this Agreement, reimbursements will be made as follows:

1. Upon execution and delivery of this Agreement by both parties, the Recipient may request immediate reimbursement of any eligible incurred planning and design allowance costs through submission to the State Water Board of the Reimbursement Request Form 260 and Form 261, or any amendment thereto, duly completed and executed.
2. The Recipient must submit a Reimbursement Request for costs incurred prior to the date this Agreement is executed by the State Water Board no later than ninety (90) days after this Agreement is executed by the State Water Board. Late Reimbursement Requests may not be honored.
3. Additional Project Funds will be promptly disbursed to the Recipient upon receipt of Reimbursement Request Form 260 and Form 261, or any amendment thereto, duly completed and executed by the Recipient for incurred costs consistent with this Agreement, along with receipt of progress reports due under this Agreement.
4. The Recipient must not request reimbursement for any Project Cost until such cost has been incurred and is currently due and payable by the Recipient, although the actual payment of such cost by the Recipient is not required as a condition of Reimbursement Request. Supporting documentation (e.g., receipts) must be submitted with each Reimbursement Request. The amount requested for Recipient's administration costs must include a calculation formula (i.e., hours or days worked times the hourly or daily rate = total amount claimed). Reimbursement of Project Funds will be made only after receipt of a complete, adequately supported, properly documented, and accurately addressed Reimbursement Request. Upon request by the Division, supporting documents for professional and administrative services must include the employees' names, classifications, labor rates, hours worked, and descriptions of the tasks performed. Reimbursement Requests submitted without supporting documents may be wholly or partially withheld at the discretion of the Division.
5. The Recipient must spend Project Funds within 30 days of receipt. If the Recipient earns interest earned on Project Funds, it must report that interest immediately to the State Water Board. The State Water Board may deduct earned interest from future reimbursements.
6. The Recipient shall not request a reimbursement unless that Project Cost is allowable, reasonable, and allocable.
7. Notwithstanding any other provision of this Agreement, no reimbursement shall be required at any time or in any manner which is in violation of or in conflict with federal or state laws, policies, or regulations.

Notwithstanding any other provision of this Agreement, the Recipient agrees that the State Water Board may retain an amount equal to ten percent (10%) of the Project Funding Amount until Project Completion. Any retained amounts due to the Recipient will be promptly disbursed to the Recipient, without interest, upon Project Completion.

Except as follows, construction costs and disbursements are not available until after the Division has approved the final budget form submitted by the Recipient. The Deputy Director of the Division may authorize the disbursement of up to ten percent (10%) of Project Funds for the reimbursement of eligible construction costs and pre-purchased materials prior to Division approval of the final budget form submitted by the Recipient. All other construction costs are not eligible for reimbursement until after this the Division has approved the final budget form submitted by the Recipient. Construction costs incurred prior to the Eligible Construction Start Date are not eligible for reimbursement.

B.7 REVERTING FUNDS AND DISENCUMBRANCE.

In the event the Recipient does not submit Reimbursement Requests for all funds encumbered under this Agreement timely, any remaining funds revert to the State. The State Water Board may notify the Recipient that the project file is closed, and any remaining balance will be disencumbered and unavailable for further use under the Agreement.

EXHIBIT C – GENERAL TERMS AND CONDITIONS 2019-NOV

GENERAL TERMS AND CONDITIONS 2019-NOV is incorporated by reference and is posted at https://www.waterboards.ca.gov/water_issues/programs/grants_loans/general_terms.html

EXHIBIT D – SPECIAL CONDITIONS

D.1 DEFINITIONS.

1. Notwithstanding Exhibit C, the following terms have no meaning for the purposes of this Agreement:
 - Work Completion
 - Work Completion Date
2. Each capitalized term used in this Agreement has the following meaning:
 - "Allowance" means an amount based on a percentage of the accepted bid for an eligible project to help defray the planning, design, and construction engineering and administration costs of the Project.
 - "Authorized Representative" means the duly appointed representative of the Recipient as set forth in the certified original of the Recipient's authorizing resolution that designates the authorized representative by title.
 - "Completion of Construction" means the date, as determined by the Division after consultation with the Recipient, that the work of building and erection of the Project is substantially complete, and is established on the Cover Page of this Agreement.
 - "Eligible Construction Start Date" means the date set forth on the Cover Page of this Agreement, establishing the date on or after which construction costs may be incurred and eligible for reimbursement hereunder.
 - "Eligible Work Start Date" means the date set forth on the Cover Page of this Agreement, establishing the date on or after which any non-construction costs may be incurred and eligible for reimbursement hereunder.
 - "Enterprise Fund" means the enterprise fund of the Recipient in which Revenues are deposited.
 - "Event of Default" means, in addition to the meanings set forth in Exhibit C, the occurrence of any of the following events:
 - a) A material adverse change in the condition of the Recipient, the Revenues, or the System, which the Division reasonably determines would materially impair the Recipient's ability to satisfy its obligations under this Agreement;
 - b) Failure to operate the System or the Project without the Division's approval;
 - c) The occurrence of a material breach or event of default under any System obligation that results in the acceleration of principal or interest or otherwise requires immediate prepayment, repurchase or redemption;
 - "Final Budget Approval (FBA)" means the Division-approved final budget for the Project, as set forth in Exhibit B.
 - "Indirect Costs" means those costs that are incurred for a common or joint purpose benefiting more than one cost objective and are not readily assignable to the Project (i.e., costs that are not directly related to the Project). Examples of Indirect Costs include, but are not limited to: central service costs; general administration of the Recipient; non-project-specific accounting and personnel services performed within the Recipient organization; depreciation or use allowances

- on buildings and equipment; the costs of operating and maintaining non-project-specific facilities; tuition and conference fees; generic overhead or markup; and taxes.
- "Initiation of Construction" means the date that notice to proceed with work is issued for the Project, or, if notice to proceed is not required, the date of commencement of building and erection of the Project.
- "Net Revenues" means, for any Fiscal Year, all Revenues received by the Recipient less the Operations and Maintenance Costs for such Fiscal Year.
- "Operations and Maintenance Costs" means the reasonable and necessary costs paid or incurred by the Recipient for maintaining and operating the System, determined in accordance with GAAP, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the System in good repair and working order, and including all reasonable and necessary administrative costs of the Recipient that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any), the cost of permits, licenses, and charges to operate the System and insurance premiums; but excluding, in all cases depreciation, replacement, and obsolescence charges or reserves therefor and amortization of intangibles.
- "Policy" means the State Water Board's "Policy for Implementing the Clean Water State Revolving Fund," as amended from time to time, including the Intended Use Plan in effect as of the execution date of this Agreement.
- "Revenues" means, for each Fiscal Year, all gross income and revenue received or receivable by the Recipient from the ownership or operation of the System, determined in accordance with GAAP, including all rates, fees, and charges (including connection fees and charges) as received by the Recipient for the services of the System, and all other income and revenue howsoever derived by the Recipient from the ownership or operation of the System or arising from the System, including all income from the deposit or investment of any money in the Enterprise Fund or any rate stabilization fund of the Recipient or held on the Recipient's behalf, and any refundable deposits made to establish credit, and advances or contributions in aid of construction.
- "System" means all wastewater collection, pumping, transport, treatment, storage, and disposal facilities, including land and easements thereof, owned by the Recipient, including the Project, and all other properties, structures, or works hereafter acquired and constructed by the Recipient and determined to be a part of the System, together with all additions, betterments, extensions, or improvements to such facilities, properties, structures, or works, or any part thereof hereafter acquired and constructed.
- "Useful Life" means the economically useful life of the Project beginning at Project Completion and is set forth in Exhibit A.

D.2 ADDITIONAL REPRESENTATIONS AND WARRANTIES.

- (a) The Recipient has not made any untrue statement of a material fact in its application for this financial assistance, or omitted to state in its application a material fact that makes the statements in its application not misleading.
- (b) The Recipient agrees to fulfill all assurances, declarations, representations, and commitments in its application, accompanying documents, and communications filed in support of its request for funding under this Agreement.
- (c) The execution, delivery, and performance by Recipient of this Agreement, including all incorporated documents, do not violate any provision of any law or regulation in effect as of the date set forth on the first page hereof, or result in any breach or default under any contract, obligation, indenture, or other instrument to which Recipient is a party or by which Recipient is bound as of the date set forth on the Cover Page.
- (d) Except as set forth in this paragraph, there are, as of the date of execution of this Agreement by the Recipient, no pending or, to Recipient's knowledge, threatened actions, claims, investigations, suits, or proceedings before any governmental authority, court, or administrative agency which materially affect the financial condition or operations of the Recipient, the Revenues, and/or the Project.
- (e) There are no proceedings, actions, or offers by a public entity to acquire by purchase or the power of eminent domain any of the real or personal property related to or necessary for the Project.
- (f) The Recipient is duly organized and existing and in good standing under the laws of the State of California. Recipient must at all times maintain its current legal existence and preserve and keep in full force and effect its legal rights and authority. Within the preceding ten years, the Recipient has not failed to demonstrate compliance with state or federal audit disallowances.
- (g) Any financial statements or other financial documentation of Recipient previously delivered to the State Water Board as of the date(s) set forth in such financial statements or other financial documentation: (a) are materially complete and correct; (b) present fairly the financial condition of the Recipient; and (c) have been prepared in accordance with GAAP. Since the date(s) of such financial statements or other financial documentation, there has been no material adverse change in the financial condition of the Recipient, nor have any assets or properties reflected on such financial statements or other financial documentation been sold, transferred, assigned, mortgaged, pledged or encumbered, except as previously disclosed in writing by Recipient and approved in writing by the State Water Board.
- (h) The Recipient is current in its continuing disclosure obligations associated with its material debt, if any.
- (i) The Recipient has no conflicting or Material Obligations.
- (j) The Recipient legally possesses all real property rights necessary for the purposes of this Agreement, not subject to third party revocation, which rights extend at least to the Records Retention End Date of this Agreement, except as set forth in Exhibit D.
- (k) The Recipient and its principals, to the best of the Recipient's knowledge and belief, are not presently debarred, suspended, proposed for debarment, declared ineligible, or otherwise excluded from participation in any work overseen, directed, funded, or administered by the State Water Board program for which this grant funding is authorized; nor have they engaged or

permitted the performance of services covered by this Agreement from parties that are debarred or suspended or otherwise excluded from or ineligible for participation in any work overseen, directed, funded, or administered by the State Water Board program for which this grant funding is authorized.

D.3 TECHNICAL SPECIAL CONDITIONS.

1. The Recipient certifies that no Project Funds will be used on:

- a. Video surveillance or telecommunications equipment produced by Huawei Technologies Company or ZTE Corporation (or any subsidiary or affiliate of such entities), telecommunications equipment produced by Hytera Communications Corporation, Hangzhou Hikvision Digital Technology Company, or Dahua Technology Company (or any subsidiary or affiliate of such entities);
- b. Telecommunications or video surveillance services produced by such entities;
- c. Telecommunications or video surveillance equipment or services produced or provided by an entity that the Secretary of Defense, in consultation with the Director of the National Intelligence or the Director of the Federal Bureau of Investigation, reasonably believes to be an entity owned or controlled by, or otherwise connected to, the government of a covered foreign country; or
- d. Other telecommunications or video surveillance services or equipment in violation of 2 CFR 200.216.

D.4 ACKNOWLEDGEMENTS.

The Recipient must include the following acknowledgement in any document, written report, or brochure to be shared with the general public prepared in whole or in part pursuant to this Agreement:

“Funding for this project has been provided in full or in part through an agreement with the State Water Resources Control Board. California’s Clean Water State Revolving Fund is capitalized through a variety of funding sources, including grants from the United States Environmental Protection Agency and state bond proceeds. The contents of this document do not necessarily reflect the views and policies of the foregoing, nor does mention of trade names or commercial products constitute endorsement or recommendation for use.”

D.5 OPERATIONS AND MAINTENANCE; INSURANCE.

The Recipient shall sufficiently and properly staff, operate, and maintain the facility and structures constructed or improved as part of the project throughout the term of this Agreement, consistent with the purposes of this Agreement. The Recipient assumes all operations and maintenance costs of the facilities and structures; the State Water Board shall not be liable for any cost of such maintenance, management or operation.

D.6 INSURANCE.

The Recipient will procure and maintain or cause to be maintained insurance on the System with responsible insurers, or as part of a reasonable system of self-insurance, in such amounts and against such risks (including damage to or destruction of the System) as are usually covered in connection with systems similar to the System. Such insurance may be maintained by a self-insurance plan so long as such plan provides for (i) the establishment by the Recipient of a separate segregated self-insurance fund in an amount determined (initially and on at least an annual basis) by an independent insurance consultant experienced in the field of risk management employing accepted actuarial techniques and (ii) the establishment and maintenance of a claims processing and risk management program.

In the event of any damage to or destruction of the System caused by the perils covered by such insurance, the net proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the System. The Recipient must begin such reconstruction, repair or replacement as expeditiously as possible, and must pay out of such net proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same must be completed and the System must be free and clear of all claims and liens. Recipient agrees that for any policy of insurance concerning or covering the construction of the Project, it will cause, and will require its contractors and subcontractors to cause, a certificate of insurance to be issued showing the State Water Board, its officers, agents, employees, and servants as additional insured; and must provide the Division with a copy of all such certificates prior to the commencement of construction of the Project.

**D.7 CONTINUOUS USE OF PROJECT; NO LEASE, SALE, TRANSFER OF OWNERSHIP;
OR DISPOSAL OF PROJECT.**

The Recipient agrees that, except as provided in this Agreement, it will not abandon, substantially discontinue use of, lease, sell, transfer ownership of, or dispose of all or a significant part or portion of the Project during the Useful Life of the Project without prior written approval of the Division. Such approval may be conditioned as determined to be appropriate by the Division, including a condition requiring repayment of all disbursed Project Funds or all or any portion of all remaining funds covered by this Agreement together with accrued interest and any penalty assessments that may be due.

D.8 RATES, FEES, AND CHARGES.

The Recipient must, to the extent permitted by law, fix, prescribe and collect rates, fees and charges for the System during each Fiscal Year which are reasonable, fair, and nondiscriminatory and which will be sufficient to generate Revenues in the amounts necessary to cover Operations and Maintenance Costs, and must ensure that Net Revenues are in an amount necessary to meet its obligations under this Agreement.

The Recipient may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Revenues from such reduced rates, fees, and charges will at all times be sufficient to meet the requirements of this section.

D.9 NOTICE.

Upon the occurrence of any of the following events, the Recipient must notify the Division's Deputy Director and Party Contacts by phone and email within the time specified below:

- (a) Within 24 hours, the Recipient must notify the Party Contacts by phone and by email, and also notify the Division by phone at (916) 327-9978 and by email to CleanWaterSRF@waterboards.ca.gov of any discovery of any potential tribal cultural resource and/or archaeological or historical resource. Should a potential tribal cultural resource and/or archaeological or historical resource be discovered during construction or Project implementation, the Recipient must ensure that all work in the area of the find will cease until a qualified archaeologist has evaluated the situation and made recommendations regarding preservation of the resource, and the Division has determined what actions should be taken to protect and preserve the resource. The Recipient must implement appropriate actions as directed by the Division.
- (b) The Recipient must notify the Division and Party Contacts promptly of the occurrence of any of the following events:

- i. Bankruptcy, insolvency, receivership or similar event of the Recipient, or actions taken in anticipation of any of the foregoing;
- ii. Change of ownership of the Project (no change of ownership may occur without written consent of the Division); Loss, theft, damage, or impairment to Project;
- iii. Events of Default, except as otherwise set forth in this section;
- iv. A proceeding or action by a public entity to acquire the Project by power of eminent domain.
- v. Any litigation pending or threatened with respect to the Project or the Recipient's technical, managerial or financial capacity or the Recipient's continued existence;
- vi. Consideration of dissolution, or disincorporation;
- vii. Enforcement actions by or brought on behalf of the State Water Board or Regional Water Board.
- viii. The discovery of a false statement of fact or representation made in this Agreement or in the application to the Division for this funding, or in any certification, report, or request for reimbursement made pursuant to this Agreement, by the Recipient, its employees, agents, or contractors;
- ix. Any substantial change in scope of the Project. The Recipient must undertake no substantial change in the scope of the Project until prompt written notice of the proposed change has been provided to the Division and the Division has given written approval for the change;
- x. Any circumstance, combination of circumstances, or condition, which is expected to or does delay Completion of Construction for a period of ninety (90) days or more;
- xi. Cessation of all major construction work on the Project where such cessation of work is expected to or does extend for a period of thirty (30) days or more;
- xii. Any Project monitoring, demonstration, or other implementation activities required in this Agreement;
- xiii. Any public or media event publicizing the accomplishments and/or results of this Agreement and provide the opportunity for attendance and participation by state representatives with at least ten (10) working days' notice to the Division;
- xiv. Any event requiring notice to the Division pursuant to any other provision of this Agreement;
- xv. The award of the prime construction contract for the Project; and the initiation of construction of the Project; and
- xvi. Completion of Construction, and Project Completion.

D.10 RETURN OF FUNDS.

Notwithstanding any other provision of this Agreement, if the Division determines that an Event of Default has occurred, the Recipient may be required, upon demand, to immediately return to the State Water Board any grant or principal forgiveness amounts received pursuant to this Agreement and pay interest at the highest legal rate on all of the foregoing.

D.11 DAMAGES FOR BREACH OF TAX-EXEMPT STATUS.

In the event that any breach of any of the provisions of this Agreement by the Recipient results in the loss of tax-exempt status for any bonds of the State or any subdivision or agency thereof, or if such breach results in an obligation on the part of the State or any subdivision or agency thereof to reimburse the federal government by reason of any arbitrage profits, the Recipient must immediately reimburse the State or any subdivision or agency thereof in an amount equal to any damages paid by or loss incurred by the State or any subdivision or agency thereof due to such breach.

D.12 FRAUD, WASTE, AND ABUSE.

The Recipient shall prevent fraud, waste, and the abuse of Project Funds, and shall cooperate in any investigation of such activities that are suspected in connection with this Agreement. The Recipient understands that discovery of any evidence of misrepresentation or fraud related to Reimbursement Requests, invoices, proof of payment of invoices, or other supporting information, including but not limited to double or multiple billing for time, services, or any other eligible cost, may result in referral to the Attorney General's Office or the applicable District Attorney's Office for appropriate action. The Recipient further understands that any suspected occurrences of false claims, misrepresentation, fraud, forgery, theft or any other misuse of Project Funds may result in withholding of reimbursements and/or the termination of this Agreement requiring the immediate repayment of all funds disbursed hereunder.

D.13 DISPUTES.

The Recipient must continue with the responsibilities under this Agreement during any dispute. The Recipient may, in writing, appeal a staff decision within 30 days to the Deputy Director of the Division or designee, for a final Division decision. The Recipient may appeal a final Division decision to the State Water Board within 30 days. The Office of the Chief Counsel of the State Water Board will prepare a summary of the dispute and make recommendations relative to its final resolution, which will be provided to the State Water Board's Executive Director and each State Water Board Member. Upon the motion of any State Water Board Member, the State Water Board will review and resolve the dispute in the manner determined by the State Water Board. Should the State Water Board determine not to review the final Division decision, this decision will represent a final agency action on the dispute. This provision does not preclude consideration of legal questions, provided that nothing herein shall be construed to make final the decision of the State Water Board, or any official or representative thereof, on any question of law. This section relating to disputes does not establish an exclusive procedure for resolving claims within the meaning of Government Code sections 930 and 930.4.

D.14 STATE CROSS-CUTTERS.

Recipient represents that, as applicable, it complies and covenants to maintain compliance with the following for the term of the Agreement:

- i. The California Environmental Quality Act (CEQA), as set forth in Public Resources Code 21000 et seq. and in the CEQA Guidelines at Title 14, Division 6, Chapter 3, Section 15000 et seq.
- ii. Water Conservation requirements, including regulations in Division 3 of Title 23 of the California Code of Regulations.
- iii. Monthly Water Diversion Reporting requirements, including requirements set forth in Water Code section 5103.
- iv. Public Works Contractor Registration with Department of Industrial Relations requirements, including requirements set forth in Sections 1725.5 and 1771.1 of the Labor Code.
- v. Volumetric Pricing & Water Meters requirements, including the requirements of Water Code sections 526 and 527.
- vi. Urban Water Management Plan requirements, including the Urban Water Management Planning Act (Water Code, § 10610 et seq.).
- vii. Urban Water Demand Management requirements, including the requirements of Section 10608.56 of the Water Code.
- viii. Delta Plan Consistency Findings requirements, including the requirements of Water Code section 85225 and California Code of Regulations, title 23, section 5002.
- ix. Agricultural Water Management Plan Consistency requirements, including the requirements of Water Code section 10852.
- x. Charter City Project Labor Requirements, including the requirements of Labor Code section 1782 and Public Contract Code section 2503.
- xi. The Recipient agrees that it will, at all times, comply with and require its contractors and subcontractors to comply with directives or orders issued pursuant to Division 7 of the Water Code.

D.15 DAMAGES FOR BREACH OF FEDERAL CONDITIONS.

In the event that any breach of any of the provisions of this Agreement by the Recipient results in the failure of Project Funds to be used pursuant to the provisions of this Agreement, or if such breach results in an obligation on the part of the State or any subdivision or agency thereof to reimburse the federal government, the Recipient must immediately reimburse the State or any subdivision or agency thereof in an amount equal to any damages paid by or loss incurred by the State or any subdivision or agency thereof due to such breach.

D.16 ACCESS AND INSPECTION.

In addition to the obligations set forth in section 2 of the General Terms and Conditions incorporated in Exhibit C of this Agreement, the Recipient must ensure that the United States Environmental Protection Agency, the Office of Inspector General, any member of Congress, or any authorized representative of the foregoing, will have safe and suitable access to the Project site at all reasonable times during the term of the Agreement.

D.17 FINANCIAL MANAGEMENT SYSTEMS.

The Recipient must comply with federal standards for financial management systems. The Recipient agrees that, at a minimum, its fiscal control and accounting procedures will be sufficient to permit preparation of reports required by the federal government and tracking of Project funds to a level of expenditure adequate to establish that such funds have not been used in violation of federal or state law or the terms of this Agreement. To the extent applicable, the Recipient is bound by, and must comply with, the provisions and requirements of the federal Single Audit Act of 1984 and 2 CFR Part 200, subpart F, and updates or revisions, thereto.

D.18 FEDERAL CROSS-CUTTERS.

The Recipient acknowledges, warrants compliance with, and covenants to continuing compliance with the following federal terms and conditions for the Useful Life of the Project:

- i. Unless the Recipient has obtained a waiver from USEPA on file with the State Water Board or unless this Project is not a project for the construction, alteration, maintenance or repair of a public water system or treatment work, the Recipient shall not purchase "iron and steel products" produced outside of the United States on this Project. Unless the Recipient has obtained a waiver from USEPA on file with the State Water Board or unless this Project is not a project for the construction, alteration, maintenance or repair of a public water system or treatment work, the Recipient hereby certifies that all "iron and steel products" used in the Project were or will be produced in the United States. For purposes of this section, the term "iron and steel products" means the following products made primarily of iron or steel: lined or unlined pipes and fittings, manhole covers and other municipal castings, hydrants, tanks, flanges, pipe clamps and restraints, valves, structural steel, reinforced precast concrete, and construction materials. "Steel" means an alloy that includes at least 50 percent iron, between .02 and 2 percent carbon, and may include other elements.
- ii. The Recipient agrees to comply with the Davis-Bacon provisions incorporated by reference in this Agreement. The Recipient must include in full the Wage Rate Requirements (Davis-Bacon) language incorporated by reference in all construction contracts and subcontracts.
- iii. The Recipient must comply with the signage requirements in this Agreement.
- iv. The Recipient shall notify the State Water Board and the USEPA contact of public or media events publicizing the accomplishment of significant events related to this Project and provide the opportunity for attendance and participation by federal representatives with at least ten (10) working days' notice.
- v. The Recipient shall comply with applicable USEPA general terms and conditions found at <http://www.epa.gov/ogd>.
- vi. No Recipient may receive funding under this Agreement unless it has provided its DUNS number to the State Water Board.

- vii. The Recipient represents and warrants that it and its principals are not excluded or disqualified from participating in this transaction as such terms are defined in Parts 180 and 1532 of Title 2 of the Code of Federal Regulations (2 CFR). If the Recipient is excluded after execution of this Agreement, the Recipient shall notify the Division within ten (10) days and shall inform the Division of the Recipient's exclusion in any request for amendment of this Agreement. The Recipient shall comply with Subpart C of Part 180 of 2 CFR, as supplemented by Subpart C of Part 1532 of 2 CFR. Such compliance is a condition precedent to the State Water Board's performance of its obligations under this Agreement. When entering into a covered transaction as defined in Parts 180 and 1532 of 2 CFR, the Recipient shall require the other party to the covered transaction to comply with Subpart C of Part 180 of 2 CFR, as supplemented by Subpart C of Part 1532 of 2 CFR.
- viii. To the extent applicable, the Recipient shall disclose to the State Water Board any potential conflict of interest consistent with USEPA's Final Financial Assistance Conflict of Interest Policy at <https://www.epa.gov/grants/epas-final-financial-assistance-conflict-interest-policy>. A conflict of interest may result in disallowance of costs.
- ix. USEPA and the State Water Board have the right to reproduce, publish, use and authorize others to reproduce, publish and use copyrighted works or other data developed under this assistance agreement.
- x. Where an invention is made with Project Funds, USEPA and the State Water Board retain the right to a worldwide, nonexclusive, nontransferable, irrevocable, paid-up license to practice the invention owned by the Recipient. The Recipient must utilize the Interagency Edison extramural invention reporting system at <http://iEdison.gov> and shall notify the Division when an invention report, patent report, or utilization report is filed.
- xi. The Recipient agrees that any reports, documents, publications or other materials developed for public distribution supported by this Agreement shall contain the Acknowledgement statement set forth in Exhibit D.
- xii. The Recipient acknowledges that it is encouraged to follow guidelines established under Section 508 of the Rehabilitation Act, codified at 36 CFR Part 1194, with respect to enabling individuals with disabilities to participate in its programs supported by this Project.
- xiii. The Recipient, its employees, contractors and subcontractors and their employees warrants that it will not engage in severe forms of trafficking in persons, procure a commercial sex act during the term of this Agreement, or use forced labor in the performance of this Agreement. The Recipient must include this provision in its contracts and subcontracts under this Agreement. The Recipient must inform the State Water Board immediately of any information regarding a violation of the foregoing. The Recipient understands that failure to comply with this provision may subject the State Water Board to loss of federal funds. The Recipient agrees to compensate the State Water Board for any such funds lost due to its failure to comply with this condition, or the failure of its contractors or subcontractors to comply with this condition. The State Water Board may unilaterally terminate this Agreement if the Recipient that is a private entity is determined to have violated the foregoing.
- xiv. The Recipient certifies to the best of its knowledge and belief that:
 - a. No federal appropriated funds have been paid or will be paid, by or on behalf of the Recipient, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the awarding of any federal contract, the making of any federal grant, the making of any federal loan, the entering into

of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any federal contract, grant, loan, or cooperative agreement.

- b. If any funds other than federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress in connection with this Agreement, the Recipient shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions, and notify the State Water Board.

The Recipient shall require this certification from all parties to any contract or agreement that the Recipient enters into and under which the Recipient incurs costs for which it seeks reimbursement under this Agreement.

- xv. The Recipient must comply with the following federal non-discrimination requirements:
 - a. Title VI of the Civil Rights Act of 1964, which prohibits discrimination based on race, color, and national origin, including limited English proficiency (LEP).
 - b. Section 504 of the Rehabilitation Act of 1973, which prohibits discrimination against persons with disabilities.
 - c. The Age Discrimination Act of 1975, which prohibits age discrimination.
 - d. Section 13 of the Federal Water Pollution Control Act Amendments of 1972, which prohibits discrimination on the basis of sex.
 - e. 40 CFR Part 7, as it relates to the foregoing.
 - f. Executive Order 13798, including, to the greatest extent practicable and to the extent permitted by law, the requirement to respect and protect the freedom of persons and organizations to engage in political and religious speech.
 - g. All applicable federal civil rights regulations, including statutory and national policy requirements (2 CFR section 200.300).
- xvi. If the Project relates to construction of a publicly owned treatment works, where the Recipient contracts for program management, construction management, feasibility studies, preliminary engineering, design, engineering, surveying, mapping, or architectural related services, the Recipient shall ensure that any such contract is negotiated in the same manner as a contract for architectural and engineering services is negotiated under chapter 11 of title 40, United States Code, or an equivalent State qualifications-based requirement as determined by the State Water Board.
- xvii. If the Project relates to construction of a publicly owned treatment works, the Recipient certifies that it has developed and is implementing a fiscal sustainability plan for the Project that includes an inventory of critical assets that are a part of the Project, an evaluation of the condition and performance of inventoried assets or asset groupings, a certification that the recipient has evaluated and will be implementing water and energy conservation efforts as part of the plan, and a plan for maintaining, repairing, and, as necessary, replacing the Project and a plan for funding such activities.
- xviii. Executive Order No. 11246. The Recipient shall include in its contracts and subcontracts related to the Project the following provisions:

"During the performance of this contract, the contractor agrees as follows:"(a) The contractor will not discriminate against any employee or applicant for employment because of race, creed, color, or national origin. The contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, creed, color, or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places, available to employees and

applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

"(b) The contractor will, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants will receive consideration for employment without regard to race, creed, color, or national origin.

"(c) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting officer, advising the labor union or workers' representative of the contractor's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

"(d) The contractor will comply with all provisions of Executive Order No. 11246 of Sept. 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

"(e) The contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

"(f) In the event of the contractor's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of Sept 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

"(g) The contractor will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of Sept. 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance: Provided, however, That in the event the contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States."

- xix. The Recipient agrees to comply with the requirements of USEPA's Program for Utilization of Small, Minority and Women's Business Enterprises.
- xx. Procurement Prohibitions under Section 306 of the Clean Air Act and Section 508 of the Clean Water Act, including Executive Order 11738, Administration of the Clean Air Act and the Federal Water Pollution Control Act with Respect to Federal Contracts, Grants, or Loans; 42 USC § 7606; 33 USC § 1368. Except where the purpose of this Agreement is to remedy the cause of the violation, the Recipient may not procure goods, services, or materials from suppliers excluded under the federal System for Award Management: <http://www.sam.gov/> .

- xxi. Uniform Relocation and Real Property Acquisition Policies Act, Pub. L. 91-646, as amended; 42 USC §§4601-4655. The Recipient must comply with the Act's implementing regulations at 49 CFR 24.101 through 24.105.
- xxii. The Recipient agrees that if its network or information system is connected to USEPA networks to transfer data using systems other than the Environmental Information Exchange Network or USEPA's Central Data Exchange, it will ensure that any connections are secure.
- xxiii. All geospatial data created pursuant to this Agreement that is submitted to the State Water Board for use by USEPA or that is submitted directly to USEPA must be consistent with Federal Geographic Data Committee endorsed standards. Information on these standards may be found at www.fgdc.gov. If the Recipient is a water system that serves 500 or fewer persons, the Recipient represents that it has considered publicly-owned wells as an alternative drinking water supply.
- xxiv. The Recipient represents that it is not a corporation that has any unpaid Federal tax liability that has been assessed, for which all judicial and administrative remedies have been exhausted or have lapsed, and that is not being paid in a timely manner pursuant to an agreement with the authority responsible for collecting the tax liability; and it is not a corporation that was convicted of a felony criminal violation under a Federal law within the preceding 24 months.
- xxv. The Recipient agrees to immediately notify the Project Manager in writing about any allegation of research misconduct involving research activities that are supported in whole or in part with USEPA funds under this Project, including fabrication, falsification, or plagiarism in proposing, performing, or reviewing research, or in reporting research results, or ordering, advising, or suggesting that subordinates engage in research misconduct.
- xxvi. The Recipient agrees to comply with, and require all contractors and subcontractors to comply with, USEPA's Scientific Integrity Policy, available at <https://www.epa.gov/osa/policy-epa-scientific-integrity>, when conducting, supervising, and communicating science and when using or applying the results of science. For purposes of this condition scientific activities include, but are not limited to, computer modelling, economic analysis, field sampling, laboratory experimentation, demonstrating new technology, statistical analysis, and writing a review article on a scientific issue.

The Recipient shall not suppress, alter, or otherwise impede the timely release of scientific findings or conclusions; intimidate or coerce scientists to alter scientific data, findings, or professional opinions or exert non-scientific influence on scientific advisory boards; knowingly misrepresent, exaggerate, or downplay areas of scientific uncertainty; or otherwise violate the USEPA's Scientific Integrity Policy. The Recipient must refrain from acts of research misconduct, including publication or reporting, as described in USEPA's Policy and Procedures for Addressing Research Misconduct, Section 9.C, and must ensure scientific findings are generated and disseminated in a timely and transparent manner, including scientific research performed by contractors and subcontractors.

- xxvii. The Recipient agrees to comply with the Animal Welfare Act of 1966 (7 USC 2131-2156). Recipient also agrees to abide by the "U.S. Government Principles for the Utilization and Care of Vertebrate Animals used in Testing, Research, and Training," available at <http://grants.nih.gov/grants/olaw/references/phspol.htm#USGovPrinciples>.

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_____, 2021

State Water Resources Control Board
Division of Financial Assistance
Attn: Amor Moskaira
1001 I St., 16th floor
P.O. Box 944212
Sacramento, CA 95814

Re: Borrego Water District (“Recipient”) – Wastewater Treatment Plant Upgrade – Project No. C-06-8199-110 (“Project”)

GENERAL COUNSEL OPINION

Ladies and Gentlemen:

This firm serves as General Counsel to the Recipient in connection with the Project. This opinion is delivered to the State Water Resources Control Board (“State Water Board”) at the request of the Recipient. In connection therewith, we have examined the laws pertaining to the Recipient, the Construction Loan 100% Principal Forgiveness Agreement No. SWRCB000000000D2001017, between the Recipient and the State Water Board (“Agreement”), the Recipient’s authorizing resolution, Resolution No. 2015-10-01 adopted on October 20, 2015, the Recipient’s authorized representative resolution, Resolution No. [2021-_____] adopted on January 12, 2021, the Recipient’s rate-setting resolution, Resolution No. [_____] adopted on [_____] (collectively, “the Recipient Resolutions”), and such other documents, legal opinions, instruments and records, and have made such investigation of law, as we have considered necessary or appropriate for the purpose of this opinion.

The opinions expressed herein are based on an analysis of existing statutes, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur.

In our examination, we have assumed, without independent investigation, the authenticity of all documents submitted to us as originals, of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents and the accuracy of the statements and representations contained in such documents. In addition, we have assumed



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State Water Resources Control Board
Division of Financial Assistance
Attn: Amor Moskaira

_____, 2021

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the authority of and due execution by each of the parties to the documents other than the Recipient.

As used in this opinion, the phrase “to the best of our knowledge and based upon reasonable investigation” means knowledge as we have obtained from (i) the incumbency and signature certificate of the Recipient, (ii) the representations and warranties contained in each document covered by this opinion and delivered by the Recipient, and (iii) knowledge of facts or other information currently known to lawyers in this office who have performed legal services for the Recipient.

Based on the foregoing, it is our opinion that:

- a. The Recipient, a special district of the State of California duly organized, validly existing under the laws of the State of California pursuant to California Water Code section 34000 *et seq.*, has the requisite legal right, power, and authority to execute and deliver the Agreement and carry out and consummate all transactions contemplated therein.
- b. The Recipient Resolutions have been duly adopted at meetings of the Recipient which were called and held pursuant to law with all public noticed required by law. The Recipient Resolutions are in full force and effect and have not been amended, modified, supplemented, or rescinded, nor has the rate-setting resolution been challenged or the rates become subject of a referendum or initiative or other similar process.
- c. To the best of our knowledge and based upon a reasonable investigation, all proceedings required by law or under the ordinances or bylaws of the Recipient to be taken by the Recipient in connection with the authorization of the Agreement and the transactions contemplated by and related thereto, and all such approvals, authorizations, consents or other orders of or filings or registrations with such public boards or bodies, if any, as may be legally required to be obtained by the Recipient prior to the date hereof with respect to all or any of such matters have been taken or obtained and are in full force and effect, except that no opinion is expressed as to any approvals, obligations or proceedings which may be required under any federal securities laws or state blue sky or securities laws.
- d. To the best of our knowledge and based upon a reasonable investigation, the execution and delivery of the Agreement and the consummation of the



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transactions therein will not conflict with or constitute a breach of or default (with due notice or the passage of time or both) under (i) the statutes creating the Recipient or any amendments thereto, (ii) the ordinances or bylaws of the Recipient, (iii) any bond, debenture, note or other evidence of indebtedness, or any material contract, agreement or lease to which the Recipient is a party or by which it or its properties are otherwise subject or bound or (iv) any applicable law or administrative regulation or any applicable court or administrative decree or order.

- e. To the best of our knowledge and based upon a reasonable investigation, the Recipient has sufficient property rights in the Project property for the purposes contemplated in the Agreement. These property right extend in perpetuity.
- f. To the best of our knowledge and based upon a reasonable investigation, there is no action, suit, proceeding, inquiry or investigation before or by any court of federal, state, municipal or other governmental authority pending for which service has been given to the Recipient or threatened against or affecting the Recipient's wastewater system or the assets, properties or operations of the Recipient relating to its wastewater system which, if determined adversely to the Recipient or its interests would result in any material change in the assets or financial condition of the Recipient, the Recipient's wastewater system or the financial condition thereof, and the Recipient is not in default with respect to any order or decree of any court or any order, regulation, or demand of any federal, state, municipal, or other governmental agency which default might have consequences that would materially and adversely affect the financial condition of the Recipient or its wastewater system.
- g. Noo facts have come to our attention which lead us to believe that the Recipient's authorized representative has made any untrue statement of a material fact or omitted or omits to state a material fact or has made misleading statements in the Agreement.
- h. The Agreement has been duly authorized, executed, and delivered, and assuming due authorization, execution and delivery of the Agreement by the State Water Board, constitutes legal, valid, and binding obligation of the Recipient enforceable against the Recipient in accordance with its terms, subject to the laws relating to bankruptcy, insolvency, reorganization, or creditors' rights generally and to the application of equitable principles, if equitable remedies are sought.



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State Water Resources Control Board
Division of Financial Assistance
Attn: Amor Moskaira

_____, 2021

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We disclaim any obligation to supplement this opinion letter with regard to events occurring or coming to our attention after the date hereof. The opinions herein are limited to the matters expressly set forth herein, and no opinion is to be implied or may be inferred beyond the matters expressly so stated. Specifically, without limitation, we do not express herein any opinion as to:

- (1) Any matter governed by any laws other than the laws of the State of California or the laws of the United States of America;
- (2) Federal tax matters, federal or state securities or blue-sky laws;
- (3) The state or quality of title to any of the property described in the Agreement;
- (4) The enforceability of any choice of forum provisions contained in the Agreement;
- (5) The validity and enforceability of any liquidated damages provisions; or
- (6) The accuracy or sufficiency of the description of any real property contained in the Agreement.

No attorney-client relationship exists between you and us. No party other than those to whom this opinion is specifically addressed may rely on the opinions contained herein without our express written authorization to do so. As General Counsel to the Recipient in this matter, we have not rendered financial advice to the Recipient.

The opinions expressed herein may be affected by actions which may be taken (or not taken) or events which may occur (or not occur) after the date hereof. We have not undertaken to determine, nor to inform any person, whether any such actions or events are taken or occur or are not taken or do not occur.

We bring to your attention the fact that our conclusions are an expression of professional judgment and are not a guarantee of a result.

Respectfully submitted,

BORREGO WATER DISTRICT
BOARD OF DIRECTORS MEETING
JANUARY 12, 2021
AGENDA ITEM II.E

January 5, 2021

TO: Board of Directors
FROM: Geoffrey Poole, General Manager and David Dale, District Engineer
SUBJECT: Election of Officers – G Poole

RECOMMENDED ACTION:

Elect 3 Positions for 2-year term: President, Vice President, Secretary/Treasurer

ITEM EXPLANATION:

Each January following the election, BWD traditionally elects officers. Currently they are:

Pres: Kathy

VP: Lyle

Sec: Dave

Treas: Ray D

NEXT STEPS:

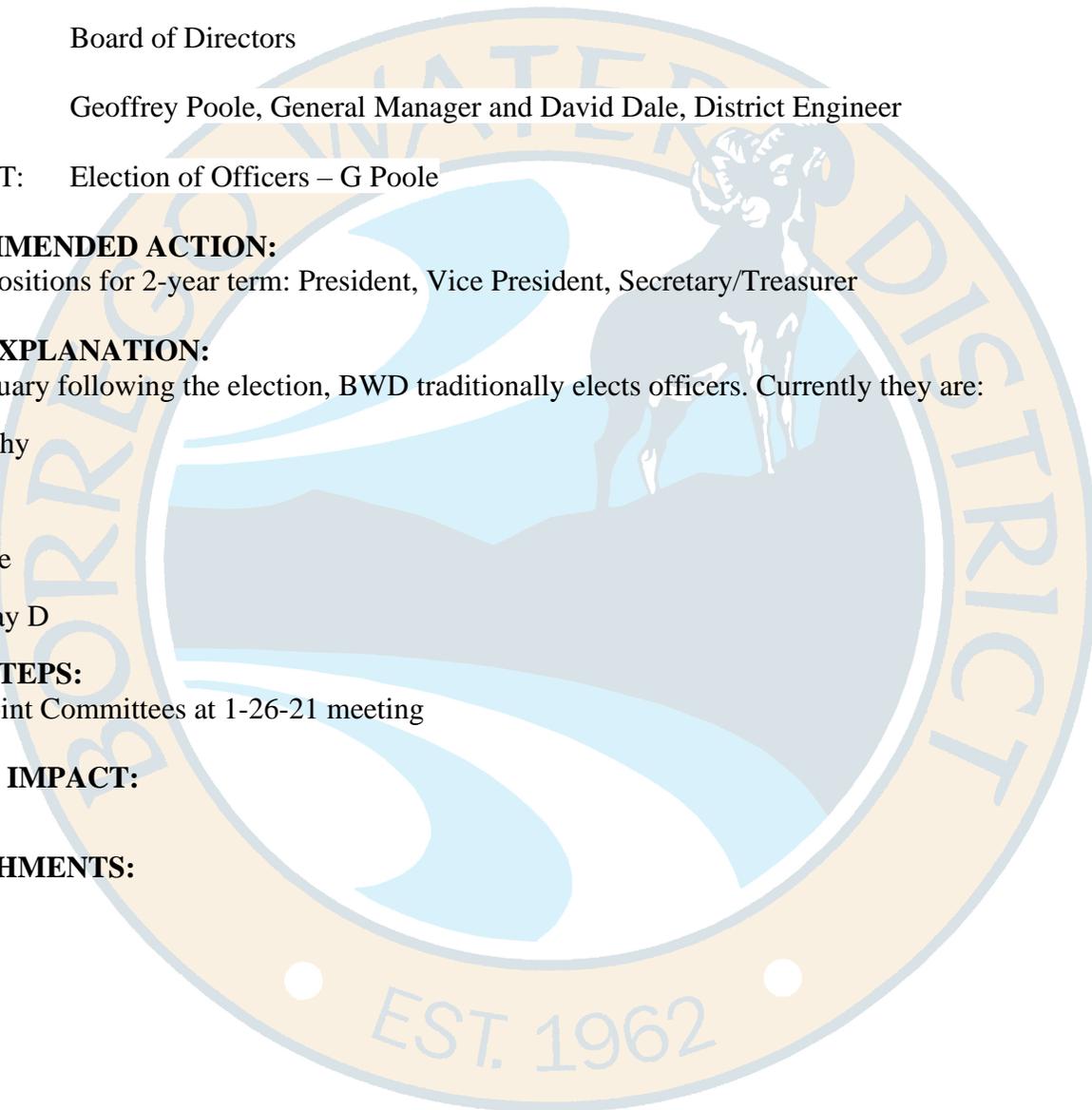
1. Appoint Committees at 1-26-21 meeting

FISCAL IMPACT:

N/A

ATTACHMENTS:

1. None



BORREGO WATER DISTRICT
BOARD OF DIRECTORS MEETING
JANUARY 12, 2021
AGENDA ITEM II.F

January 7, 2021

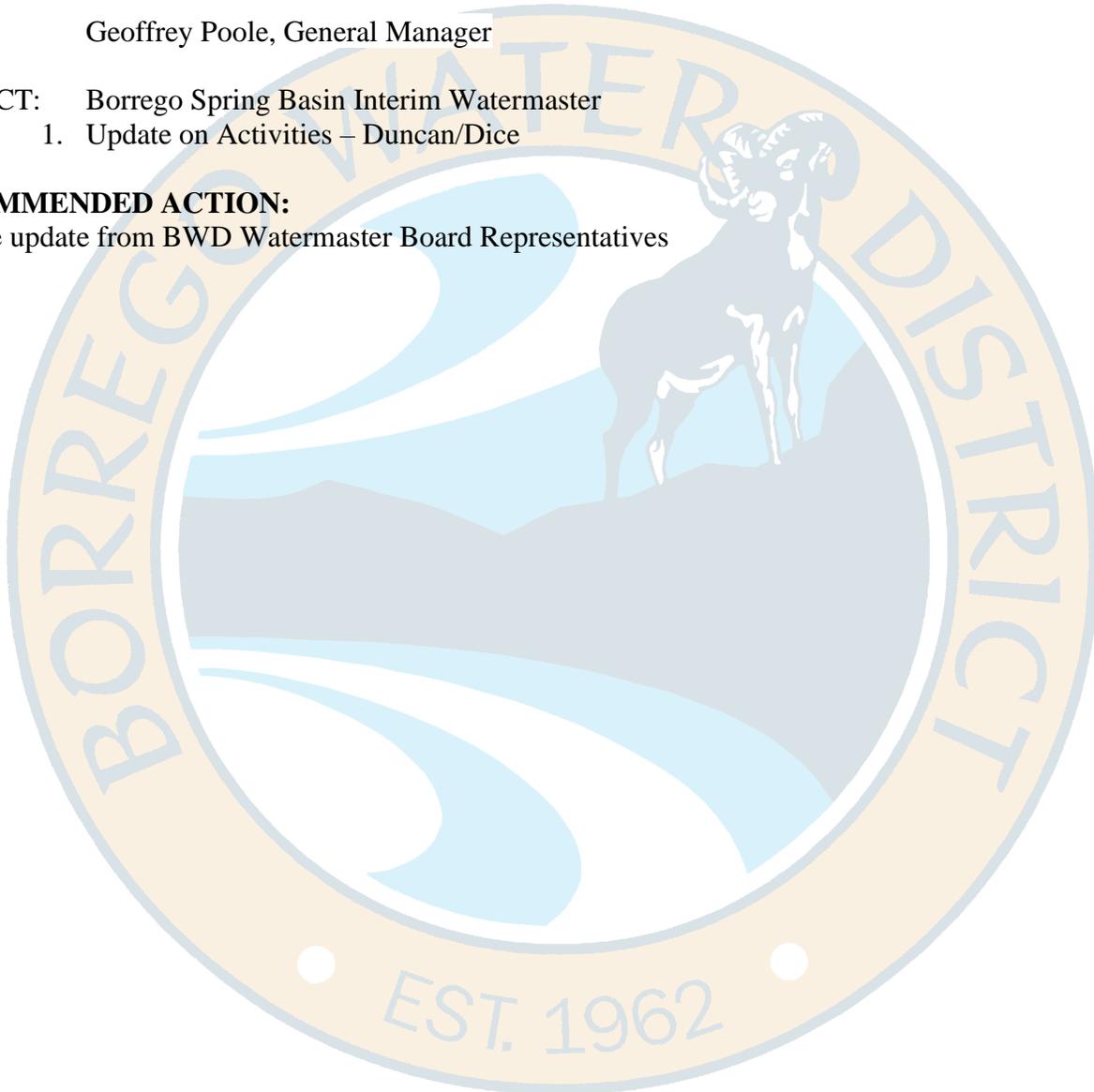
TO: Board of Directors

FROM: Geoffrey Poole, General Manager

SUBJECT: Borrego Spring Basin Interim Watermaster
1. Update on Activities – Duncan/Dice

RECOMMENDED ACTION:

Receive update from BWD Watermaster Board Representatives



BORREGO WATER DISTRICT
BOARD OF DIRECTORS MEETING
JANUARY 12, 2021
AGENDA ITEM III.A/B

January 7, 2021

TO: Board of Directors

FROM: Geoffrey Poole, General Manager and David Dale, District Engineer

SUBJECT: Staff Reports

- A. Water and Sewer Revenues – J Clabaugh: Jessica will provide her monthly verbal report
- B. Conflict of Interest Code – Esmeralda will update the Board on the C o I code activities since last meeting

