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Certified Public Accountants
and Financial Advisors

Borrego Water District

Financial Statements

June 30, 2017 and 2016

INDEX TO THE FINANCIAL STATEMENTS

BORREGO WATER DISTRICT

November 27, 2017

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 or District) for fiscal year ended June 30, 2017 is hereby submitted as required. Squar Milner LLP, a firm of licensed certified public accountants, has audited the District's financial statements.[1]

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

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

The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2017 are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2017 are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

PROFILE OF THE DISTRICT

The District was established in 1962 as a State of California special district (Water Code § 35565) to provide water, sewer, and flood control and gnat abatement for areas in the Borrego Springs community. Borrego Springs is an unincorporated destination community of approximately 3,500 full-time and more than 6,000 winter residents, that is located in the northeast corner of San Diego County approximately 90 miles drive from San Diego.

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

[1] Squar Milner is one of the nation's top 70 accounting and advisory firms with over 300 professionals based in Southern California (www.squarmilner.com).

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 Borrego on an average year to more than a million visitors on a super bloom year as we have had in the spring of 2017. An economic study developed for the Anza-Borrego Foundation (ABF) estimates the revenue generated by visitation to the Park during an average year is approximately $40 million annually to the region, mostly in San Diego County (BBC Consulting, 2012).

Infrastructure

The District has 9 active municipal production wells connected to 90 miles of distribution lines to serve its approximately 2,125 residential, commercial, institutional, and irrigation 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 development. The estimated replacement cost value of the District's water, sewer and wastewater treatment facility 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 required. The General Manager is responsible for carrying out the policies and ordinances approved by the District board, for overseeing the day-to-day operations of the District, and for meeting the financial objectives set forth in the annual budget approved by the board.

Groundwater Supply, Usage & Availability

One hundred years ago Native Americans inhabited the Borrego Valley and utilized the springs and surface water sources issuing from the nearby mountain ranges. Cattlemen began homesteading the Borrego Valley in about 1875. The first successful modern well was dug in 1926. Agricultural development began primarily after 1945. Today, all human water used annually is pumped from the Borrego Springs Subbasin (Borrego Basin: basin) of the Borrego Valley Groundwater Basin (BVGB).

The basin is made up of three aquifers: upper, middle and lower aquifers, each with different physical characteristics. These three aquifers, Pleistocene (2.5 million years ago) to Holocene (11,700 years ago) era water deposits, are the community's sole source of water. Historically, the upper aquifer has been the principle source of groundwater in Borrego Valley. 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 *Southeast California Regional Basin Study Evaluates Water Supply and Demand in Borrego, Coachella and Imperial Valleys* by the 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 US Environmental Protection Agency – Region 9 (2012).

Annual agricultural irrigation, golf course irrigation, and municipal uses require about four times more water than is available through average annual natural recharge of the basin. Of the current average annual withdrawals from the basin, agricultural irrigation in the Borrego Valley accounts for about 14,000 acre-feet per year (AFY; approximately 70%) of the average annual uses, recreational uses (primarily golf courses) account for about 3,000 AFY (approximately 20%) of the average annual uses and municipal uses account for less than 2,000 AFY (approximately 10%) of the total annual uses. The natural net replenishment (recharge less outflows) of the basin of approximately 5,700 AFY annually is based on 66 years of historic data. The actual annual natural net recharge can fluctuate in the arid climate from less than 1,000 AFY in dry years 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 about 13,300 acre-feet (AF) of water per year based on current withdrawal rates and the estimated average annual net replenishment rate. The largest water level declines are found in the northern part of basin where most of the approximately 3,700 acres of primarily citrus agricultural acreage is concentrated and in the southwestern part of the basin where municipal use is primarily located.

Groundwater-level declines of more than 100 feet in some parts of the groundwater basin have been observed. Anthropogenic activities have resulted in an increase in pumping lifts, reduced well efficiency, dry wells, changes in water quality, loss of natural groundwater discharge, and changes to the desert ecosystems of the Park. Today, water levels in the basin are declining on average about 2.7 feet a year. However, if the present rate of withdrawals continues, water levels are projected to drop at an ever-faster rate in the future as more withdrawals occur from the middle and lower aquifers of the basin. At the current rate of use, the groundwater supply is not sustainable. Readers should review a recent study (2015) by the USGS, *Hydrogeology, Hydrologic Effects of Development, and Simulation of Groundwater Flow in the Borrego Valley, San Diego County* for more complete information.

Even with the current overdraft, the basin likely has adequate water supply possibly for hundreds of years. However, as water levels continue to drop in the basin, water quality may also decline, which may require expensive additional treatment for potable uses. Thus, the cost of municipal water supply for potable uses will most likely continue to increase annually over time. Presently, the basin 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 depending on the Management Area, wells are often screened in the three different aquifers of the basin and exhibit different water quality characteristics.

The District believes that sustainable groundwater management requires the development, implementation and updating of management plans based on the best available science, monitoring, forecasting, use of technological resources and best management practices. Although the District adopted a groundwater management plan (GMP) for the basin under Assembly Bill 3030 (AB 3030) in 2002, this plan was never fully implemented and contained no timelines, defensible reduction methods, nor funding sources necessary to implement a plan to adequately address the basin overdraft.

On January 1, 2015, the Sustainable Groundwater Management Act (SGMA; the Act) replaced AB 3030. The Act gives Groundwater Sustainability Agencies (GSAs) the authority to limit extractions, impose fees and penalties, and require metering and water quality monitoring on all basin pumpers other than deminimis pumpers (pumpers who can prove they use less than 2 AFY). GSAs are charged with developing and adopting a Groundwater Sustainability Plan (GSP) that produces basin sustainability in no more than twenty (20) years from 2020 for medium California Statewide Groundwater Monitoring (CASGEM) basins in critical overdraft (the California Department of Water Resources [DWR] designation for the basin). Both the District and San Diego County (County) have agreed to a Memorandum of Understanding (MOU) to become a multi-agency GSA for the basin; the District on September 20, 2015; the County on October 19, 2016. SGMA-mandated supply constraints will add additional pressure on water rates, as the District will likely be required to purchase irrigated farmland to fallow in order to transfer underlying water rights for municipal use. An Advisory Committee comprising nine members representing agriculture, recreation, municipal ratepayers, the Park, the Borrego Springs Community Sponsor Group and Borrego Valley Stewardship Council was established in February 2017 to advise the Core Team of the District and County responsible for developing the GSP for the basin.

The Borrego Water Coalition (BWC; Coalition) submitted a set of policy recommendations on November 6, 2014 to the District and to the County for consideration in a GSP to address the overdraft of the basin and that meets the criteria established by the SGMA for managing the basin in a sustainable manner (i.e. produces *no undesirable results*). The Coalition comprises local leaders from the Chamber of Commerce, agriculture, the District, education, golf, lodging, Park and recreation. The Coalition members represent major pumpers and water users of the basin who collectively account for more than an approximately eighty percent (80%) of the annual withdrawals from the basin. The District also is a signatory to the Borrego Valley Stewardship Council, a convening entity of individuals and member organizations interested in developing economic sustainability development initiatives for the destination community of Borrego Springs, given the location of the community as a gateway to the Park.

The District is not a member of the San Diego County Water Authority (SDCWA), the regional member of the Metropolitan Water District of Southern California (MWD) that imports supplemental water into San Diego County.

California's Ongoing Drought

Because the Borrego Valley relies solely on the Borrego Basin for its municipal, recreational, and farming irrigation uses, the California drought has produced no physical impairment of water supply for the District 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 more impetus to use water wisely than periodic drought declarations from Sacramento.

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 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. Thus, uncertainty over the costs of long-term water supply, potential future costs for treating groundwater to meet safe drinking water quality standards, and the economic impacts of meeting SGMA objectives for the Borrego Basin may be slowing investments for new development in the Borrego Valley (Valley). For example, one result of SGMA is to change the present cost of groundwater from zero dollars to as yet some undetermined positive amount for use.

FACTORS AFFECTING FINANCIAL CONDITION (continued)

Previous Fiscal Years Spending by the District

The District has largely addressed the financial situation that was inherited from the 2007 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 2011-2017, the District now should have sufficient annual cash flow and cash reserves to entertain necessary borrowing to complete needed (CIP). Timely investments in CIP are necessary to produce the lowest economic cost provision of municipal water, sewer and wastewater treatment services for the District's customers.

Long-Term Financial Planning

The District's present Board of Directors is aware of the need to restore the District's financial stability and to maintain its creditworthiness to borrow. 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 returning to revenue sufficiency include: (a) the active management and projection of monthly cash flow during the year; (b) holding 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 a material reduction in future long term cash obligations; (e) deferring large infrastructure repair and replacement (R&R) capital expenditures until the District is able to borrow again in the public bond markets; and (f) implementing annual water and sewer rate increases to increase cash flow and to accumulate cash reserves.

The primary driver for the long-term financial viability of the District, as well as the economy of the Valley is the overdraft's impact on water quality (see section on Groundwater Supply, Usage & Availability above). In order to accomplish this objective, the District needs to maintain financial stability and a good credit standing with the bond markets in order to accommodate raising new debt.

RELEVANT FINANCIAL POLICIES

Reserve Policy

The District has established a Reserve Fund Policy to anticipate and to prepare for future funding requirements as well as for unforeseen events. The Reserve Fund Policy establishes restricted and unrestricted reserves and describes the flow of funds to and from the various reserves. A copy of the District's current approved Reserve Policy is available on the District's website as part of the FY 2018 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.

RELEVANT FINANCIAL POLICIES (continued)

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. In FY 2012, the Board changed the pension program from three percent (3%) per year of active service at retirement that was instituted by the prior Board in 2009, back to its previous two percent (2%) per year of active service at retirement. This pension policy is in effect for employees of the District hired after April 1, 2012.

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

Respectfully submitted,

/s/ *Geoff Poole*

General Manager

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Squar Milner LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Borrego Water District
Borrego Springs, California

We have audited the accompanying financial statements of Borrego Water District, as of and for the fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Borrego Water District's basic financial statements as listed in the index 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

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Opinions

In our opinions, the financial statements referred to above present fairly, in all material respects, the financial position of Borrego Water District, as of June 30, 2017 and 2016, and the changes in financial position and cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 17, and the schedules of proportionate share of the net pension liability and plan contributions on pages 47 and 48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

O*ther Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borrego Water District's basic financial statements. The other supplementary information, as listed in the index to the financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as listed in the index to the financial statements, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Squar Milner LLP

SQUAR MILNER LLP

San Diego, California
November 27, 2017

As management of the Borrego Water District (the "District"), we offer the readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of three main parts (1) Management's Discussion and Analysis, (2) Basic Financial Statements, and (3) Required Supplemental Information.

The financial statements consist of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis for State and Local Governments*.

FINANCIAL HIGHLIGHTS

During the fiscal year ended June 30, 2017, the following events impacted, or have the potential to impact, the finances of the District:

- On May 24, 2017, the District's Board approved a budget for fiscal year 2018 that included sewer rate changes that will result in an approximate revenue increase of 4.00% for sewer service charges; an increase of 6.00% for water base rates; and an increase of 6.00% for water commodity rates over the FY 2017 rates in effect. The new rates took effect July 1, 2017 and are reflected initially in customers' August billings.
- The income from operations for the fiscal year ended June 30, 2017, was $1,111,975 compared with income from operations of $995,166 for fiscal year 2016.
- Cash and cash equivalents increased to $4,149,656 at June 30, 2017, from $3,257,871 at June 30, 2016.
- Capital assets decreased to $13,419,035 at June 30, 2017, from $13,604,086 at June 30, 2016.
- The change in net position for the fiscal year ended June 30, 2017, was an increase of $1,024,974, compared to an increase in net position of $891,852 for fiscal year 2016.
- In March 2017, the Board of Directors approved a resolution to establish Community Facilities District (CFD) No. 2017-1 2017 Special Tax Bonds in order to refinance the CFD No. 2007-1 Special Tax Bonds. CFD 2017-1 2017 Special Tax Bonds consist of Series 2017A Bonds of $1,100,000 of 3.70% term bonds due August 1, 2032 with principal payments beginning on August 1, 2018, and Series 2017B Bonds of $10,500,000 of 4.00% term bonds due August 1, 2042 with mandatory sinking fund redemption beginning August 1, 2021. The CFD 2017-1 Bonds do not constitute an indebtedness of the District and are only secured by a pledge of Net Taxes.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as in introduction to the District's basic financial statements.

Basic Financial Statements, the basic financial statements include District financial statements.

The District, as a whole, is reported in the District's statements and uses accounting methods similar to those used by companies in the private sector.

The *Statements of Net Position*, a District statement, presents information on all of the Districts assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position,* a District statement, presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for income items that will only result in cash flows in future fiscal periods.

The *Statements of Cash Flows* provides information regarding the District's cash receipts and cash disbursements during the year.

The *Notes to the Basic Financial Statements* are included to provide more detailed data and explain some of the information in the statements.

In addition to the basic financial statements and notes, this report also presents required supplementary information and the supplementary information, as listed in the table of contents.

Statements of Net Position

The Statements of Net Position presents the District's financial position (assets and liabilities) as of June 30, 2017 and 2016. Assets in excess of liabilities (Net Position) were $14,128,331 and $13,103,357 as of June 30, 2017 and 2016, respectively. In accordance with generally accepted accounting principles (GAAP), capital assets are recorded at historical cost. Net position is accumulated from revenues in excess of expenses, and contributed capital combined with the beginning balance of net position as presented in the Statement of Revenues, Expenses and Changes in Net Position.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Statements of Revenues, Expenses, and Changes in Net Position

The Statements of Revenues, Expenses, and Changes in Net Position presents the District's results of operations for the year ended June 30, 2017 and 2016. In accordance with GAAP, revenues are recognized (recorded) when water, sewer or other services are provided, and expenses are recognized when incurred. Operating revenues and expenses are related to the District's core activities (providing water, sewer, pest control and flood control services). Non-operating revenues and expenses are not directly related to the core activities, e.g. investment income, interest expense, etc. The operating income for the fiscal year ended June 30, 2017 of $1,111,975 is combined with net non-operating revenues and expenses of ($87,001), to arrive at the change of net position of $1,024,974. The increase in net position is added to the beginning net position of $13,103,357 to arrive at the ending net position of $14,128,331 as of June 30, 2017.

One of the most important questions asked about the District's finances is, "How has the District's position changed as the result of this year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position present information about the District's activities that help answer this question. These two statements report the net position of the District and the changes to them. The District's net position, the difference between assets and liabilities, may be thought of as one way to measure its financial health or financial position. Over time, increases or decreases in net position can be an indicator as to whether the financial health is improving or deteriorating. However, it is incumbent upon the observer to consider other non-financial factors such as the regulatory climate, economic conditions, population growth, zoning changes, environmental changes, etc.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Analysis of Net Position

Our analysis will start with a summary of the District's Net Position as presented in the following table:

Borrego Water District's Net Position

			Variance	
	2017	**2016**	**$**	**%**
ASSETS				
Cash and cash equivalents	$ 4,149,656	$ 3,257,871	$ 891,785	27.37%
Capital assets	13,419,035	13,604,086	(185,051)	-1.36%
Other assets	584,222	548,355	35,867	6.54%
TOTAL ASSETS	18,152,913	17,410,312	742,601	4.27%
DEFERRED OUTFLOWS OF RESOURCES	459,290	357,429	101,861	28.50%
LIABILITIES				
Current liabilities	441,654	406,765	34,889	8.58%
Noncurrent liabilities	3,879,142	4,011,230	(132,088)	-3.29%
TOTAL LIABILITIES	4,320,796	4,417,995	(97,199)	-2.20%
DEFERRED INFLOWS OF RESOURCES	163,076	246,389	(83,313)	-33.81%
NET POSITION				
Net investment in capital assets	10,145,914	10,092,085	53,829	0.53%
Unrestricted	3,982,417	3,011,272	971,145	32.25%
TOTAL NET POSITION	$ 14,128,331	$ 13,103,357	$ 1,024,974	7.82%

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Analysis of Revenues and Expenses

The Water District's Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2017 and 2016:

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

			Variance	
	2017	**2016**	**$**	**%**
OPERATING REVENUES				
Water revenue	$ 3,138,560	$ 3,026,055	$ 112,505	3.72%
Sewer service charges	556,412	551,218	5,194	0.94%
Availability charges	247,815	241,404	6,411	2.66%
Other income	1,019	1,326	(307)	-23.15%
Total operating revenues	3,943,806	3,820,003	123,803	3.24%
OPERATING EXPENSES				
Water operations	1,995,965	1,560,372	435,593	27.92%
Sewer operations	468,838	454,282	14,556	3.20%
General and administrative	367,028	810,183	(443,155)	-54.70%
Total operating expenses	2,831,831	2,824,837	6,994	0.25%
INCOME FROM OPERATIONS	1,111,975	995,166	116,809	11.74%
NON OPERATING EXPENSES, NET	(87,001)	(109,206)	22,205	-20.33%
INCOME BEFORE CONTRIBUTIONS AND IMPAIRMENTS	1,024,974	885,960	139,014	15.69%
CAPITAL CONTRIBUTIONS	-	7,472	(7,472)	-100.00%
IMPAIRMENT OF CAPITAL ASSETS	-	(1,580)	1,580	-100.00%
CHANGE IN NET POSITION	1,024,974	891,852	133,122	14.93%
TOTAL NET POSITION, BEGINNING	13,103,357	12,211,505	891,852	7.30%
TOTAL NET POSITION, ENDING	$ 14,128,331	$ 13,103,357	$ 1,024,974	7.82%

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Analysis of Revenues and Expenses (continued)

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

- Slight increase in revenue due to rate increases enacted in August 2017.
- Increase in the cost of providing water and sewer service, primarily due to better allocation of overhead and increases in salaries.
- General and Administrative expense decreased due primarily to better overhead allocation to water and sewer.

BUDGET HIGHLIGHTS

Fiscal Year 2017 Actual vs. Fiscal Year 2017 Budget

	2017 Actual	2017 Budget	Variance $	Variance %
REVENUES				
From operations	$ 3,943,806	$ 4,105,458	$ (161,652)	-3.94%
Nonoperating	71,909	65,049	6,860	10.55%
Total revenue	4,015,715	4,170,507	(154,792)	-3.71%
EXPENSES				
Water operations	1,995,965	1,813,532	182,433	10.06%
Sewer operations	468,838	496,181	(27,343)	-5.51%
General and administrative	367,028	1,448,500	(1,081,472)	-74.66%
Other non-operating expenses	158,910	152,986	5,924	3.87%
Total expenses	2,990,741	3,911,199	(920,458)	-23.53%
CHANGE IN NET POSITION	$ 1,024,974	$ 259,308	$ 765,666	295.27%

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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year the District had a net investment in various categories of capital assets as shown in the following table:

Borrego Water District's Capital Assets

			2016/2017 Variance	
	2017	**2016**	**$**	**%**
Land	$ 1,013,650	$ 1,013,650	$ -	0.00%
Flood control facilities	4,287,340	4,319,604	(32,264)	-0.75%
Sewer facilities	6,277,141	6,132,473	144,668	2.36%
Water facilities	11,008,923	10,648,734	360,189	3.38%
Pipelines, wells and tanks	-	151,699	(151,699)	-100.00%
General facilities	1,006,881	1,006,881	-	0.00%
Telemetry	46,459	46,459	-	0.00%
Equipment and furniture	528,516	386,925	141,591	36.59%
Vehicles	582,802	540,195	42,607	7.89%
Construction in progress	236,968	279,806	(42,838)	-15.31%
Fallowed water credits	1,030,650	1,030,650	-	0.00%
Water rights-ID #4	185,000	185,000	-	0.00%
Total assets	26,204,330	25,742,076	462,254	1.80%
Less accumulated depreciation	(12,785,295)	(12,137,990)	(647,305)	-5.33%
Net capital assets	$ 13,419,035	$ 13,604,086	$ (185,051)	-1.36%

Debt Administration

On October 1, 2008, the District issued $2,775,000 of 2008 Bonds while concurrently redeeming all of its outstanding 1997 and 1998 Certificates of Participation.

The bonds are payable in annual principal installments of $25,000 to $245,000 on October 1 of each year beginning 2014 through 2028. Interest is payable semi-annually on April 1 and October 1 at an interest rate of 4.50% per annum. The bonds are payable solely from installment payments to be made by the District to the Borrego Water District Public Facilities Corporation. The installment payments are a special obligation of the District payable solely from revenues of Improvement District No. 4 and certain funds and accounts created by agreement.

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Debt Administration (continued)

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

Year Ending June 30,	Principal	Interest	Totals
2018	$ 150,000	101,475	251,475
2019	160,000	94,500	254,500
2020	165,000	87,188	252,188
2021	175,000	79,538	254,538
2022	180,000	71,550	251,550
2023-2027	1,025,000	226,013	1,251,013
2028-2030	475,000	21,713	496,713
	$ 2,330,000	$ 681,977	$ 3,011,977

On May 22, 2015, the District entered into a 10-year promissory note agreement with Compass Bank in the amount of $1,125,000 in order to refinance the Viking Ranch note. Payments of principal and interest of $35,872, at 4.95% interest per annum, are due quarterly starting September 1, 2015 through June 1, 2025. The note is secured by a pledge and lien on net water revenues from the water enterprise, as defined in the agreement.

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

Year Ending June 30,	Principal	Interest	Totals
2018	$ 98,615	$ 44,873	$ 143,488
2019	103,588	39,900	143,488
2020	108,811	34,676	143,487
2021	114,298	29,189	143,487
2022	120,062	23,426	143,488
2023 - 2025	397,747	32,715	430,462
	$ 943,121	$ 204,779	$ 1,147,900

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 2017 - 2018 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 2017 - 2018. 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.

Fiscal Year 2017 Actual vs. Fiscal Year 2018 Budget

	2018 Budget	2017 Actual	2017/2018 Variance $	2017/2018 Variance %
REVENUES				
Operating Revenue	$ 4,045,144	$ 3,943,806	$ 101,338	2.57%
Nonoperating	68,903	71,909	(3,006)	-4.18%
Total revenue	4,114,047	4,015,715	98,332	2.45%
EXPENSES				
Operating expenses	4,857,313	2,831,831	2,025,482	71.53%
Other non operating expenses	145,986	158,910	(12,924)	-8.13%
Total expenses	5,003,299	2,990,741	2,012,558	67.29%
CHANGE IN NET POSITION	$ (889,252)	$ 1,024,974	$ (1,914,226)	-186.76%

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.

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 Kim Pitman, 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, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,149,656	$ 3,257,871
Accounts receivable:		
Water and sewer, net of allowance	425,353	382,840
Inventory	128,214	133,545
Prepaid expenses	30,655	31,970
Total current assets	4,733,878	3,806,226
Capital assets:		
Land	1,013,650	1,013,650
Construction in progress	236,968	279,806
Fallowed water credits	1,030,650	1,030,650
Water rights - ID 4	185,000	185,000
Capital assets being depreciated, net	10,952,767	11,094,980
Total capital assets, net	13,419,035	13,604,086
TOTAL ASSETS	18,152,913	17,410,312
DEFERRED OUTFLOWS OF RESOURCES		
Debt refunding costs, net of amoritization	102,542	112,546
Pension related costs	356,748	244,883
TOTAL DEFERRED OUTFLOWS OF RESOURCES	459,290	357,429

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

BORREGO WATER DISTRICT
STATEMENTS OF NET POSITION
June 30, 2017 and 2016

	2017	2016
LIABILITIES		
Current liabilities:		
Accounts payable	100,505	48,795
Accrued interest payable	34,169	42,891
Short-term compensated absences	53,365	67,138
Customer deposits	5,000	9,060
Current portion of note payable	248,615	238,881
Total current liabilities	441,654	406,765
Noncurrent liabilities:		
Compensated absences	35,577	44,758
Net pension liability	819,059	693,352
Notes payable, net of current portion	3,024,506	3,273,120
Total noncurrent liabilities	3,879,142	4,011,230
TOTAL LIABILITIES	4,320,796	4,417,995
DEFERRED INFLOWS OF RESOURCES		
Pension related costs	163,076	246,389
NET POSITION		
Net investment in capital assets	10,145,914	10,092,085
Unrestricted	3,982,417	3,011,272
TOTAL NET POSITION	$ 14,128,331	$ 13,103,357

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

BORREGO WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Water revenue	$ 3,138,560	$ 3,026,055
Sewer service charges	556,412	551,218
Availability charges	247,815	241,404
Other income	1,019	1,326
Total operating revenues	3,943,806	3,820,003
OPERATING EXPENSES		
Water operations	1,995,965	1,560,372
Sewer operations	468,838	454,282
General and administrative	367,028	810,183
Total operating expenses	2,831,831	2,824,837
Income from operations	1,111,975	995,166
NON-OPERATING REVENUES (EXPENSES)		
Property taxes	65,950	64,473
Investment income	5,959	96
Gain (loss) on disposal of assets	-	7,000
Interest expense	(148,906)	(170,771)
Amortization expense	(10,004)	(10,004)
Total non-operating revenues (expenses)	(87,001)	(109,206)
INCOME BEFORE CONTRIBUTIONS AND IMPAIRMENTS	1,024,974	885,960
CAPITAL CONTRIBUTIONS	-	7,472
IMPAIRMENT OF CAPITAL ASSETS	-	(1,580)
CHANGE IN NET POSITION	1,024,974	891,852
NET POSITION, BEGINNING	13,103,357	12,211,505
NET POSITION, ENDING	$ 14,128,331	$ 13,103,357

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

BORREGO WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from water and sewer customers	$ 3,652,459	$ 3,545,554
Receipts from availability charges	247,815	241,404
Payments to suppliers	(1,056,409)	(1,360,333)
Payments to employees	(1,166,246)	(1,093,048)
Other receipts	1,019	1,326
Net cash provided by operating activities	1,678,638	1,334,903
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	65,950	64,473
Net cash provided by noncapital financing activities	65,950	64,473
CASH FLOWS FROM CAPITAL AND REALTED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(462,254)	(589,066)
Proceeds from sale of assets	-	(7,000)
Principal paid on long-term debt	(238,880)	(227,999)
Interest payments on long-term debt	(157,628)	(169,924)
Net cash used in investing activities	(858,762)	(993,989)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	5,959	96
Net cash provided from financing activities	5,959	96
NET INCREASE IN CASH AND CASH EQUIVALENTS	891,785	405,483
CASH AND CASH EQUIVALENTS , BEGINNING OF YEAR	3,257,871	2,852,388
CASH AND CASH EQUIVALENTS , END OF YEAR	$ 4,149,656	$ 3,257,871

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

BORREGO WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	$ 1,111,975	$ 995,166
Adjustments to reconcile change in income from operations to net cash provided by operating activities:		
Depreciation	647,305	617,480
(Increase) decrease in operating assests:		
Accounts receivable	(42,513)	(31,719)
Other receivables	-	-
Inventories	5,331	(9,889)
Prepaid expenses	1,315	1,725
Deferred outflows of resources	(111,865)	(96,120)
Increase (decrease) in operating liabilities:		
Accounts payable	51,710	(111,096)
Accrued expenses	-	(105,403)
Customer deposits	(4,060)	(13,034)
Short-term compensated absences	(22,954)	7,220
Net pension liability	125,707	(5,703)
Deferred inflows of resources	(83,313)	86,276
Net cash provided by operating activities	$ 1,678,638	$ 1,334,903
SUPPLEMENTAL DISCLOSURES		
Schedule of non-cash investing and financing activities:		
Contributions of water system assets by customers and developers	$ -	$ 7,472

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Borrego Water District (the “District”) accounts for its financial transactions in accordance with the policies and procedures of the Irrigation District Law, now Division 11, of the California State Water Code. The accounting policies of the District conform to accounting principles generally accepted in the United State of America (GAAP) as applicable to governments and to general practice within California Special Districts. The District accounts for its financial transactions in accordance with the policies and procedures of the State Controller’s Office Division of Local Government Fiscal Affairs Minimum Audit Requirement and Reporting Guidelines for California Special Districts.

Reporting Entity

The District’s financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District’s reporting entity, as set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, subsequently amended by GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*, include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization’s board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- it would be misleading or cause the financial statements to be incomplete to exclude another organization

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB statement.

Basis of Accounting

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges (water sales and services) or similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flow takes place.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

Operating revenues and expenses are generated and incurred through the water sales activities to the District's customers. Administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and subsequently amended by GASB Statement No. 61. This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reporting.

The District's basic financial statements are also presented in conformance with the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide guidance to include two classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are required to be reported in a Statement of Net Position in a separate section following assets. Similarly, amounts reported as deferred inflows of resources are required to be reported in a Statement of Net Position in a separate section following liabilities. In addition, the totals of these two new classifications should be added to the total for assets and liabilities, respectively.

Governmental Accounting Standards Implementation

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application.* This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement became effective in fiscal year 2016. Implementation of this GASB had no significant effect on the District's financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement establishes the hierarchy of GAAP for all state and local governments. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. This statement became effective in fiscal year 2016. Implementation of this GASB had no significant effect on the District's financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity

Cash and Cash Equivalents and Investments

For purposes of the statement of cash flows, cash and cash equivalents consist of short-term highly liquid investments with maturities of ninety days or less from the date of purchase. These include cash on hand, cash held in the restricted assets accounts, and the Local Agency Investment Fund.

The District's investment policy and state statutes authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit with national and state-licensed or chartered banks or federal or state savings and loan associations, money market and mutual funds whose portfolios consist of one or more of the investments, and the Local Agency Investment Fund.

State statutes require all deposits be insured or collateralized. Depositories holding public funds on deposit are required to maintain collateral in the form of a pool of securities with the agent of the depository having a market value of at least 10 to 50 percent in excess of the total amount of all public funds on deposit.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided based on anticipated collectability of the outstanding utility receivables and other receivables at year-end. At fiscal year ended June 30, 2017and 2016, management has not recorded an allowance for doubtful accounts as it estimates all receivables at June 30, 2017 and 2016 to be collectible.

Inventories

Inventories are recorded on the average cost basis. Inventory consists primarily of water meters, water line maintenance materials, and sewer line maintenance materials.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. A capitalization threshold of $5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	10-50
Water systems	10-50
Improvement of sites	7-25
Equipment	5-10

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferral of outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditures) until then. The District has two items that qualifies for reporting in this category.

The deferred charge of debt refunding costs resulted from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. As of June 30, 2017 and 2016, the balance of the debt refunding costs is $102,542 and $112,546, respectively.

The pension plan related costs are made up of four components: employer contributions paid during the year ended June 30, 2017 and 2016 in the amount of $137,737 and $138,617, respectively, which are deferred under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27,* (GASB Statement No. 68); net difference between projected and actual earnings on pension plan investments in the amount of $171,654 and $0 as of June 30, 2017 and 2016, respectively, which is amortized on a straight-line basis over five years; adjustments due to differences between expected and actual experience of $5,091 and $8,893 as of June 30, 2017 and 2016, respectively, difference between actual and projected contributions in the amount of $86,120 and $97,373 as of June 30, 2017 and 2016, respectively, which are amortized over straight-line basis over the average expected remaining service lives of all members that are provided with benefits.

As of June 30, 2017 and 2016, the deferred outflow pension related costs are $356,748 and $244,883, respectively.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category.

The deferred inflows of resources is made up of three components; net difference between projected and actual earnings on pension plan investments in the amount of $0 and $42,181 as of June 30, 2017 and 2016, respectively, which is amortized on a straight-line basis over five years; and adjustment due to differences in proportions in the amount of $108,360 and $120,068 as of June 30, 2017 and 2016, respectively, and change in assumptions in the amount of $54,090 and $84,140 as of June 30, 2017 and 2016, respectively, which are amortized over the straight-line basis over the average expected remaining service lives of all members that are provided with benefits.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Deferred Outflows/Inflows of Resources (continued)

As of June 30, 2017 and 2016, the deferred inflow pension related cost is $163,076 and $246,389, respectively.

Compensated Absences

Accumulated unpaid employee vacation benefits and sick leave are recognized as accrued payroll liabilities in the Statement of Net Position. As of June 30, 2017and 2016, the District had $88,942 and $111,896, respectively, of accrued vacation and sick leave.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' 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.

Pensions (continued)

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. As of June 30, 2017 and 2016, the following timeframes are used:

	2017	2016
Valuation Date (VD)	June 30, 2015	June 30, 2014
Measurement Date (MD)	June 30, 2016	June 30, 2015
Measurement Period (MP)	July 1, 2015 to June 30, 2016	July 1, 2014 to June 30, 2015

Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Capital Contributions

Capital contributions represent cash and capital asset additions to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitments.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

The District receives property taxes under the Teeter Plan, whereby the County of San Diego determines the amounts due and pays the District ratably throughout the year with the County bearing the risk of delinquent property taxes and retaining any interest and penalties earned thereon.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year information to conform to the current year presentation.

2. DEFICIT FUND BALANCE OR FUND NET POSITION OF INDIVIDUAL FUNDS

The following are funds having deficit fund balances or fund net positions at year-end, if any, along with remarks which address such deficits:

Violation	Action taken
None reported	Not applicable

3. CASH AND CASH EQUIVALENTS

The summary of cash and cash equivalents is as follows at June 30, 2017and 2016:

	2017	2016
Cash in banks	$ 4,128,067	$ 3,236,566
Cash on hand	361	234
Local Agency Investment Fund	21,228	21,071
Total cash and cash equivalents	$ 4,149,656	$ 3,257,871

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institute, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The 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 governmental agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). The District maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The District has not experienced any losses in such accounts. At June 30, 2017 and 2016 the District had $3,962,205 and $3,039,044, respectively, in excess of FDIC insured limits, and the remaining balance of the deposits were collateralized under California Law.

Local Agency Investment Fund

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 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 costs 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. At June 30, 2017 and 2016 the District had deposited with LAIF $21,228 and $21,071, respectively.

4. CAPITAL ASSETS

A schedule of changes in capital assets and accumulated depreciation for the fiscal year ended June 30, 2017, is shown as follows:

	Balance June 30, 2016	Additions	Transfers / Deletions	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	$ 1,013,650	$ -	$ -	$ 1,013,650
Construction in progress	279,806	126,345	(169,183)	236,968
Fallowed water credits	1,030,650	-	-	1,030,650
Water rights - ID 4	185,000	-	-	185,000
Total capital assets, not being depreciated	2,509,106	126,345	(169,183)	2,466,268
Capital assets, being depreciated:				
Flood control facilities	4,319,604	-	(32,264)	4,287,340
Sewer facilities	6,132,473	144,668	-	6,277,141
Water facilities	10,648,734	360,189		11,008,923
Pipelines, wells, and tanks	151,699	-	(151,699)	-
General facilities	1,006,881		-	1,006,881
Telemetry system	46,459	-	-	46,459
Equipment and furniture	386,925	141,591	-	528,516
Vehicles	540,195	42,607	-	582,802
Total capital assets, being depreciated	23,232,970	689,055	(183,963)	23,738,062
Less accumulated depreciation	(12,137,990)	(647,305)	-	(12,785,295)
Total capital assets, being depreciated, net	11,094,980	41,750	(183,963)	10,952,767
Capital assets, net of depreciation	$ 13,604,086	$ 168,095	$ (353,146)	$ 13,419,035

4. CAPITAL ASSETS (continued)

The change in capital assets and accumulated depreciation for the fiscal year ended June 30, 2016, is shown as follows:

	Balance June 30, 2015	Additions	Transfers / Deletions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	$ 1,006,178	$ 7,472	$ -	$ 1,013,650
Construction in progress	271,275	71,330	(62,799)	279,806
Fallowed water credits	1,030,650	-	-	1,030,650
Water rights - ID 4	185,000	-	-	185,000
Total capital assets, not being depreciated	2,493,103	78,802	(62,799)	2,509,106
Capital assets, being depreciated:				
Flood control facilities	4,319,604	-	-	4,319,604
Sewer facilities	5,817,631	325,898	(11,056)	6,132,473
Water facilities	10,606,930	41,804	-	10,648,734
Pipelines, wells, and tanks	151,699	-	-	151,699
General facilities	1,006,881	-	-	1,006,881
Telemetry system	46,459	-	-	46,459
Equipment and furniture	265,675	121,250	-	386,925
Vehicles	562,636	28,784	(51,225)	540,195
Total capital assets, being depreciated	22,777,515	517,736	(62,281)	23,232,970
Less accumulated depreciation	(11,581,214)	(617,480)	60,704	(12,137,990)
Total capital assets, being depreciated, net	11,196,301	(99,744)	(1,577)	11,094,980
Capital assets, net of depreciation	$ 13,689,404	$ (20,942)	$ (64,376)	$ 13,604,086

5. LONG TERM OBLIGATIONS

Long-term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the fiscal year ended June 30, 2017, are as follows:

	Balance at June 30, 2016	Additions	Retirements	Balance at June 30, 2017	Amount due within one year
Refunding Installment Purchase	$ 2,475,000	$ -	$ 145,000	$ 2,330,000	$ 150,000
Compass Bank Note	1,037,001	-	93,880	943,121	98,615
Total long-term debt	$ 3,512,001	$ -	$ 238,880	$ 3,273,121	$ 248,615

Changes in long-term obligations for the fiscal year ended June 30, 2016, are as follows:

	Balance at June 30, 2015	Additions	Retirements	Balance at June 30, 2016	Amount due within one year
Refunding Installment Purchase	$ 2,615,000	$ -	$ 140,000	$ 2,475,000	$ 145,000
Compass Bank Note	1,125,000	-	87,999	1,037,001	93,881
Total long-term debt	$ 3,740,000	$ -	$ 227,999	$ 3,512,001	$ 238,881

Refunding Installment Purchase

On October 1, 2008, the District issued $2,775,000 of 2008 Bonds while concurrently redeeming all of its outstanding 1997 Certificates of Participation and 1998 Certificates of Participation. The transaction was a current refunding intended to save the District future interest costs due to lower market interest rates. No new funds were raised by the District. New Installment Purchase Agreements were executed, which will save the District approximately $36,000 per year on debt service. The District reduced its aggregate debt service payments by $312,755 over the next twenty (20) years and obtained an economic gain (difference between the present value of the old and new debt service payments) of $259,110.

5. LONG TERM OBLIGATIONS (continued)

Refunding Installment Purchase (continued)

The bonds are payable in annual principal installments of $25,000 to $245,000 on October 1 of each year beginning 2013 through 2028. Interest is payable semi-annually on April 1 and October 1 at an interest rate of 4.50% per annum. The installment payments are a special obligation of the District payable solely from revenues of Improvement District No. 4. Accrued interest for the year ended June 30, 2017 and 2016 was $26,213 and $34,312, respectively.

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

Year Ending June 30,	Principal	Interest	Totals
2018	$ 150,000	101,475	251,475
2019	160,000	94,500	254,500
2020	165,000	87,188	252,188
2021	175,000	79,538	254,538
2022	180,000	71,550	251,550
2023-2027	1,025,000	226,013	1,251,013
2028-2030	475,000	21,713	496,713
	$ 2,330,000	$ 681,977	$ 3,011,977

Compass Bank Note

On May 22, 2015, the District entered into a 10 year promissory note agreement with Compass Bank in the amount of $1,125,000. Payments of principal and interest of $35,872, at 4.95% interest per annum, are due quarterly starting September 1, 2015 through June 1, 2025. The note is secured by a senior pledge of net water system revenues of the District (net of Improvement District Number 4 operations), which is the result of total water revenue for the District, less the revenue that it attributed to Improvement District Number 4, and was $924,729 and $991,797 for the years ended June 30, 2016 and 2015, respectively. The note is further secured by a subordinate pledge of net systems revenues of the District's Improvement District Number 4 operations, which is the total water revenues of Improvement District Number 4 of $2,233,107 and $2,101,326 for the years ended June 30, 2017 and 2016, respectively.

The District had a debt services ratio requirement of 1.25:1, which is calculated by taking the total operating revenue, add back interest expense, and depreciation and amortization expense, then divided by the sum of principal and interest related to debt paid during the year, and was 11.9:1 and 11.6:1 for the years ended June 30, 2017 and 2016, respectively.

Accrued interest for the year ended June 30, 2017 and 2016 was $7,956 and $8,579, respectively.

5. LONG TERM OBLIGATIONS (continued)

Compass Bank Note (continued)

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

Year Ending June 30,	Principal	Interest	Totals
2018	$ 98,615	$ 44,873	$ 143,488
2019	103,588	39,900	143,488
2020	108,811	34,676	143,487
2021	114,298	29,189	143,487
2022	120,062	23,426	143,488
2023 - 2025	397,747	32,715	430,462
	$ 943,121	$ 204,779	$ 1,147,900

6. OPERATING LEASES

The District has entered into operating leases for office equipment and facility usage with lease terms in excess of one year. These agreements contain no purchase options. The agreements are non-cancelable leases.

Future minimum lease payments are as follows:

Year ending June 30,	Lease payments
2018	$ 4,200
2019	4,199
2020	4,199
2021	348
	$ 12,946

The District will receive no sublease rental revenues nor pay any contingent rentals associated with these leases. Rent expense for the fiscal years ended June 30, 2017 and 2016 was $5,150 and $15,439, respectively.

7. JOINT VENTURES (JOINT POWERS AGREEMENTS)

The District participates in the following jointly governed organization under a joint power agreement (JPA):

California Water Agencies Joint Powers Insurance Authority (JPIA)

Since 1983, the District has participated in the Association of California Water Agencies Joint Powers Insurance Authority (JPIA), a risk-pooling self-insurance authority. JPIA is a consortium of public agencies in Southern California established under the provisions of California Government Code. The purpose of the authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Deposits to JPIA are expensed by the District over the policy term and are subject to retroactive adjustment.

The relationship between the District and the JPIA is such that the JPIA is not a component unit of the District for financial reporting purposes.

8. EMPLOYEE RETIREMENT PLAN

Plan Description, Benefits Provided and Employees Covered

The District contributes to the Miscellaneous 3.0% at 60 Risk Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2016 and 2015 Annual Actuarial Valuation Reports. Details of the benefits provided can be obtained at www.calpers.ca.gov under Forms and Publications.

This report is a publically available valuation report that can be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814 and www.calpers.ca.gov under Forms and Publications.

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 valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's 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. For the measurement period ended June 30, 2016 (the measurement date), the active employee contribution rate as a percentage of annual pay is 8.00% for Tier 1, 7.00% for Tier 2 and 6.25% for new employees.

8. EMPLOYEE RETIREMENT PLAN (continued)

Contribution Description (continued)

The employer's contribution rate is 11.995% after payment of the Annual Lump Sum Payment Option. For the measurement period ended June 30, 2015 (the measurement date), the active employee contribution rate as a percentage of annual pay is 8.00% for Tier 1, 7.00% for Tier 2 and 6.25% for new employees. The employer's contribution rate is 11.065% after payment of the Annual Lump Sum Payment Option. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

The District provides for 3.00% of the contributions required of Tier 1 District employees and 2.00% for all other employees on their behalf and for their account with the remaining amount to be contributed by the employees.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2015 and 2014 valuations were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

8. EMPLOYEE RETIREMENT PLAN (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the years ended June 30, 2017 and 2016, respectively. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the assumed discount rate. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term rate on pension investments. Based on the testing of the plans, the test revealed the assets would not run out. Therefore, the long-term expected rate of return of 7.65% for the years ended June 30, 2017 and 2016, respectively, on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the PERF C. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB Statement No. 68 section. Likely result in a discount rate that would be different from the assumed discount rate. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term rate on pension investments. Based on the testing of the plans, the test revealed the assets would not run out. Therefore, the long-term expected rate of return of 7.65% for the years ended June 30, 2017 and 2016, respectively, on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the PERF C. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB Statement No. 68 section.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65% for the years ended June 30, 2017 and 2016, respectively, 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 7.65% for the year ended June 30, 2017 and 2016, respectively. 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. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018.

Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statements No. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed the District’s methodology.

8. EMPLOYEE RETIREMENT PLAN (continued)

Discount Rate (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate 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. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 each fund. 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.

The tables below reflects the long-term expected real rate of return by asset class for the years ended June 30, 2017 and 2016. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses. The long-term expected real rate of return by asset class for the year ended June 30, 2017, are as follows:

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

8. EMPLOYEE RETIREMENT PLAN (continued)

Discount Rate (continued)

The long-term expected real rate of return by asset class for the year ended June 30, 2016, are as follows:

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

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

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.65% for the years ended June 30, 2017 and 2016, respectively, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	June 30, 2017		
	Discount Rate -1.00% 6.65%	Current Discount Rate 7.65%	Discount Rate +1.00% 8.65%
Plan's Net Pension Liability	$ 1,255,960	$ 819,059	$ 457,983

	June 30, 2016		
	Discount Rate -1.00% 6.50%	Current Discount Rate 7.50%	Discount Rate +1.00% 8.50%
Plan's Net Pension Liability	$ 1,162,800	$ 693,352	$ 305,768

8. EMPLOYEE RETIREMENT PLAN (continued)

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

As of June 30, 2017 and 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability for the Miscellaneous Risk Pool in the amount of $819,059 and $693,352, respectively. The District does not participate in the Safety Risk Pool.

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, 2015 and 2014, the valuation dates, was calculated as follows:

In determining an employer's proportionate share, the employer rate plans included in the Plan were assigned to either the Miscellaneous or Safety risk pool. Estimates of the total pension liability and the fiduciary net position were first determined for the individual rate plans and each risk pool as of the valuation date, June 30, 2015 and 2014. 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 Borrego Water District's proportionate share percentage for each risk pool at the valuation date was calculated by dividing the Borrego Water District's net pension liability for each of its employer rate plans within each risk pool by the net pension liability of the respective risk pool as of the valuation date.

8. EMPLOYEE RETIREMENT PLAN (continued)

Pension Liabilities and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

The District's proportionate share of the net pension liability as of June 30, 2016 and 2015, the measurement date, was calculated as follows:

> Each risk pool's total pension liability was computed at the measurement date, June 30, 2016 and 2015, by applying standard actuarial roll-forward methods to the total pension liability amounts as of the valuation date. The fiduciary net position for each risk pool at the measurement date was determined by CalPERS' Financial Office. The net pension liability for each risk pool at June 30, 2016 and 2015, 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, 2016 and 2015, was calculated by applying Borrego Water District's proportionate share percentage as of the valuation date (described above) to the respective risk pool's total pension liability and fiduciary net position as of June 30, 2016 and 2015, to obtain the total pension liability and fiduciary net position as of June 30, 2016 and 2015. 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 for each risk pool as of June 30, 2016 and 2015 was 0.23578% and 0.025273%, respectively.

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,717	$ (626)
Changes in assumptions	-	(54,090)
Net difference between projected and actual earnings on pension plan	127,174	-
Adjustment due to differences in proportions	-	(108,360)
Differences between actual and required contributions	86,120	-
Contributions after measurement date	137,737	-
Total	$ 356,748	$ (163,076)

8. EMPLOYEE RETIREMENT PLAN (continued)

Pension Liabilities and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 8,893	$ -
Changes in assumptions	-	(84,140)
Net difference between projected and actual earnings on pension plan	-	(42,181)
Adjustment due to differences in proportions	-	(120,068)
Differences between actual and required contributions	97,373	-
Contributions after measurement date	138,617	-
Total	$ 244,883	$ (246,389)

Amounts other than contributions subsequent to the measurement date reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2017 will be recognized as pension expense as follows:

Measurement Date June 30:	Deferred Outflows / (Inflows) of Resources
2017	$ (29,510)
2018	(36,978)
2019	88,093
2020	34,330
	$ 55,935

9. SEGMENT INFORMATION

The 2008 Installment Purchase Agreement as described in Note 5 was issued to finance certain capital improvements in Improvement District Number 4. While water and wastewater services are accounted for in a single fund in these financial statements, the investors in the Installment Purchase agreement rely solely on the revenues of Improvement District Number 4 for repayment.

9. SEGMENT INFORMATION (continued)

Summary financial information for Improvement District Number 4 is as follows:

Condensed Statements of Net Position

	2017	2016
Assets		
Current assets	$ 4,323,195	$ 3,534,806
Capital assets, net of depreciation	2,853,443	2,805,825
Total Assets	7,176,638	6,340,631
Deferred Outflows of Resources	323,442	259,426

	2017	2016
Liabilities		
Current liabilities	780,647	705,981
Long-term liabilities	2,180,000	2,330,000
Total Liabilities	2,960,647	3,035,981
Deferred Inflows of Resources	101,789	154,277
Net Position		
Net investment in capital assets	673,443	475,825
Unrestricted	3,764,201	2,933,974
Total Net Position	$ 4,437,644	$ 3,409,799

9. SEGMENT INFORMATION (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2017	2016
Operating Revenues		
Water revenue	$ 2,233,107	$ 2,101,326
Other income	90,075	84,584
Total operating revenues	2,323,182	2,185,910
Operating Expenses		
Water operations	1,214,136	954,819
General and administrative	14,243	322,247
Total operating expenses	1,228,379	1,277,066
Gain from operations	1,094,803	908,844
Non-Operating Revenues (Expenses)		
Property taxes	39,570	38,684
Investment income	3,489	53
Interest expense	(100,013)	(116,100)
Amortization expense	(10,004)	(10,004)
Total non-operating revenues (expenses)	(66,958)	(87,367)
Income Before Contributions	1,027,845	821,477
Capital Contributions	-	7,472
Change In Net Poition	1,027,845	828,949
Net Position, Beginning	3,409,799	2,580,850
Net Position, Ending	$ 4,437,644	$ 3,409,799

9. SEGMENT INFORMATION (continued)

Condensed Statements of Cash Flows

	2017	2016
Net Cash Provided By Operating Activities	$ 1,211,851	$ 1,007,643
Net Cash Flows From Non-Capital and Related Financing Activities	39,570	38,684
Net Cash Flows From Capital and Related Financing Activities	(441,538)	(364,125)
Net Cash Provided by Investing Activities	3,489	53
Net Increase in Cash and Cash Equivalents	813,372	682,255
Cash and Cash Equivalents, Beginning	3,252,153	2,569,898
Cash and Cash Equivalents, Ending	$ 4,065,525	$ 3,252,153

10. NONCOMMITMENT DEBT

Community Facilities District No. 2007-01 2007 Special Tax Bonds

On March 14, 2007, the Board of Directors adopted a resolution stating its intention to establish Community Facilities District No. 2007-1 and to authorize bonded indebtedness within the Community Facilities District. On April 25, 2007, the Community Facilities District 2007-1 was formed and an election was held to authorize the Community Facilities District 2007-1 to incur bonded indebtedness of up to $11,000,000 to refinance outstanding balances of the Community Facilities District 95-1 1996 Special Tax Bonds. On June 14, 2007, the Community Facilities District No. 2007-1 issued the 2007 Special Tax Bonds in the amount of $9,530,000. The balance of principal and interest outstanding 2007-1 bonds at June 30, 2016 was $4,889,080.

The bonds consisted of $5,270,000 of 5.75% term bonds due August 1, 2025 with principal payments beginning on August 1, 2010 and $4,260,000 of 5.75% term bonds due August 1, 2032 with principal payments beginning August 1, 2026.

The 2007 Special Tax Bonds do not constitute an indebtedness of the District and are only secured by a pledge of Net Taxes (which consist of the Special Taxes collected minus certain administrative expenses) and amounts on deposit in the Special Tax Fund. In the opinion of the District management and counsel the full faith and credit of the Borrego Water District and the Community Facilities District are not pledged to the payment of the Bonds, nor is the payment of the Bonds secured by any encumbrance, mortgage or other pledge of property of the Borrego Water District or the Community Facilities District.

10. NONCOMMITMENT DEBT (continued)

Community Facilities District No. 2007-01 2007 Special Tax Bonds (continued)

The Special Tax is to be levied and collected by the county at the same time and in the same manner as general ad valorem property taxes. The Community Facilities District is to receive all Special Taxes in trust and immediately deposit all amounts with the Trustee.

For the fiscal year ending June 30, 2016, there was a special tax delinquency rate of approximately 98.26%, in the Community Facilities District. The Community Facilities District has not made any regularly scheduled payments from August 1, 2011 through June 30, 2016. At June 30, 2016, the balance in the reserve fund is $0. Effective March 14, 2017, Community Facilities District 2007-1 was replaced by Community Facilities District 2017-1 resulting in the defeasance and discharge of the bond indebtedness related to Community Facilities District 2007-1.

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

On March 14, 2017, the Board of Directors adopted a resolution stating its intention to establish Community Facilities District No. 2017-01 and to authorize bonded indebtedness within the Community Facilities District. On April 18, 2017, the Community Facilities District 2017-1 was formed and an election was held to authorize the Community Facilities District 2017-1 to incur bonded indebtedness of up to $11,600,000 to refinance outstanding balances of the Community Facilities District 2007-1 2007 Special Tax Bonds. On May 25, 2017, the Community Facilities District No. 2017-1 issued Borrego 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 Series 2017A Bonds consisted of $1,100.000 of 3.70% term bonds due August 1, 2032 with principal payments beginning on August 1, 2018. The Series 2017B Bonds consisted of $10,500,000 of 4.00% term bonds due August 1, 2042 with mandatory sinking fund redemption beginning August 1, 2021.

The 2017 Special Tax Bonds do not constitute an indebtedness of the District and are only secured by a pledge of Net Taxes (which consist of the Special Taxes collected minus certain administrative expenses) and amounts on deposit in the Special Tax Fund. In the opinion of the District management and counsel the full faith and credit of the Borrego Water District and the Community Facilities District are not pledged to the payment of the Bonds, nor is the payment of the Bonds secured by any encumbrance, mortgage or other pledge of property of the Borrego Water District or the Community Facilities District.

The Special Tax is to be levied and collected by the county at the same time and in the same manner as general ad valorem property taxes. The Community Facilities District is to receive all Special Taxes in trust and immediately deposit all amounts with the Trustee.

For the fiscal year ending June 30, 2017 the balance in the reserve fund is $0.

REQUIRED SUPPLEMENTARY INFORMATION

BORREGO WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS
June 30, 2017 and 2016

	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the net pension liability	0.02358%	0.02527%	0.01123%
Proportionate share of the net pension liability	$ 699,055	$ 693,352	$ 699,055
Covered - employee payroll	$ 595,422	$ 671,180	$ 595,422
Proportionate Share of the net pension liability as percentage of covered-employee payroll	117.40%	103.30%	117.41%
Plan fiduciary net position as a percentage of the total pension liability	73.72%	77.21%	73.72%

Notes to Schedule:

Change in Benefit Terms: None

Change in Assumptions: None

- Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

BORREGO WATER DISTRICT
SCHEDULE OF PLAN CONTRIBUTIONS
LAST 10 YEARS
June 30, 2017 and 2016

	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contributions (actuarially determined)	$ 129,138	$ 138,613	$ 129,138
Contributions in relation to the actuarially determined contributions	(129,138)	(138,613)	(129,138)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 595,422	$ 671,180	$ 595,422
Contributions as a percentage of covered employee payroll	21.69%	20.65%	21.69%

Notes to Schedule:

Valuation date:	June 30, 2015	June 30, 2015	June 30, 2014

- Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

See accompanying Independent Auditor's Report.

OTHER SUPPLEMENTARY INFORMATION

BORREGO WATER DISTRICT
ORGANIZATION
June 30, 2017

The Board of Directors for the fiscal year ended June 30, 2017, was comprised of the following members:

Name	Office	Term	Term expires
Beth Hart	President	4 Years	November 30, 2018
Lyle Brecht	Vice President	4 Years	November 30, 2018
Joseph Tatusko	Treasurer/Secretary	4 Years	November 30, 2018
Raymond Delahay	Director	4 Years	November 27, 2020
Harry Ehrlich	Director	4 Years	November 27, 2020

Administration

Name	Position
Geoff Poole	General Manager
Kim Pitman	Administration Manager

See accompanying Independent Auditor's Report.

BORREGO WATER DISTRICT
ASSESSED VALUATION
June 30, 2017 and 2016

The assessed valuation of the District at June 30, 2017, is as follows:

Assessed valuation	
Secured property	$ 341,947,744
Total assessed valuation	$ 341,947,744

The assessed valuation of the District at June 30, 2016, is as follows:

Assessed valuation	
Secured property	$ 335,706,831
Total assessed valuation	$ 335,706,831

See accompanying Independent Auditor's Report.