BORREGO WATER DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2024

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BORREGO WATER DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2024

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December 10, 2024

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

State law requires that all general-purpose local governments and special districts publish each fiscal year a complete set of financial statements presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The Annual Financial Report of the Borrego Water District (BWD; District) for fiscal year ended June 30, 2024 is hereby submitted, as required, by David Farr, LLP., a firm of licensed certified public accountants, who has audited the District's financial statements.

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

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

The stated objective of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2024 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, 2024 are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this year's audit report.

PROFILE OF THE DISTRICT

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

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

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

Infrastructure

The District has 9 production wells with a replacement cost of approximately $2,000,000 each. These production wells are located primarily in the Central Management Area of the groundwater basin and are connected to approximately 100 miles of distribution lines. The District's water system serves approximately 2,059 residential, commercial, institutional, and irrigation customers. The District currently delivers approximately 1,500 acre-feet (489 million gallons) annually to its customers. The District also provides sewer and wastewater treatment services to approximately 830 customers located primarily in the Town Center, Club Circle and Rams Hill developments. The District's flood control authority is presently exercised only at Rams Hill. The estimated present replacement cost value of the District's water, sewer and wastewater treatment facilities infrastructure is approximately $100,000,000 in 2024 dollars.

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 take the job of representing their constituents seriously.

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

Groundwater Supply, Usage & Availability

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

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

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

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

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

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

The net replenishment (natural recharge less outflows) of the basin of approximately 7,900 acre-feet per year (AFY) annually is based on historical data (1945-2015). During this period the actual annual natural net recharge was highly variable, fluctuating from less than 1,000 AFY during long dry periods to more than 25,000 AFY in exceptionally wet years.

The current rate of groundwater pumping produces an average annual basin storage change (overdraft) of approximately 12,200 AF of water per year based on estimated current withdrawal rates using evapotranspiration rates by crop type for agricultural and recreational withdrawals and municipal metered usage and the US Geological Survey's (USGS) calculated average annual net replenishment rate. Based on the historical data from 66 years, groundwater levels have declined as much as 126 feet (average of nearly 2 feet per year) in the northern part of the Subbasin and about 87 feet (average of 1.3 feet per year) in the west–central part. In the southeastern part of the Subbasin where less groundwater has been pumped, groundwater levels have remained relatively stable during the same time period. At the current rate of use, the groundwater supply from the Subbasin is not sustainable.

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

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

Sustainable Groundwater Management Act of 2014 (SGMA)

The overarching aim of SGMA is to establish and achieve a *sustainability goal* for the Subbasin through the development and implementation of a Groundwater Sustainability Plan (GSP) by the Groundwater Sustainability Agency (GSA) for the

Subbasin or alternatively by a Watermaster implementing a *Physical Solution* under a court Stipulated Judgment. Both are valid options under SGMA. In enacting SGMA, the Legislature also set forth more specific purposes underlying the legislation, which include providing for sustainable management of groundwater, avoiding six designated *undesirable results* to groundwater resources that could occur without proper management, enhancing the ability of local agencies to take action to protect groundwater resources, and preserving the security of water rights to the greatest extent possible consistent with sustainable management of groundwater.

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

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

In October 2019, the County informed DWR of its decision to decline further participation as a GSA for the implementation phase of SGMA effective December 31, 2019. On January 30, 2020, pursuant to California Water Code (CWC) Sections 10733.6 and 10737.4, BWD submitted to DWR a proposed Stipulated Judgment including a groundwater management plan (GMP), constituting a *Physical Solution* for DWR's review and approval to serve as an alternative to a GSP for the Subbasin in compliance with SGMA. The pumpers of the Subbasin representing approximately 92% of annual extractions agreed to a Settlement of water rights also applied to the California Superior Court (Court) for a Stipulated Judgement (Judgement). This Stipulated Judgement was approved by the Court on April 8, 2021 under which the Subbasin pumpers have agreed to implement the *Physical Solution* under management of the Borrego Springs Watermaster. The Watermaster has been fully functional since 2021 and under its guidance, all non de minimus pumpers have been metered, groundwater elevation and quality monitoring program expanded, re evaluation of the Basin sustainable yield (increased from 5,700 to 7,952 afy) and annual reports submitted.

Under the Stipulated Judgement, Annual Reports for the Borrego Springs Groundwater Subbasin have been prepared for submittal to the California State Department of Water Resources (DWR) as of April 1, 2020 per Article 7, Section 356.2—Annual Reports, of the California Code of Regulations.1 These reports has been prepared on behalf of the stipulating parties to the groundwater rights adjudication for the Borrego Springs Groundwater Subbasin (Subbasin) (DWR Basin No. 7.024.01) of the Borrego Valley Groundwater Basin. GSA reports are available on the Watermaster website at www.borregospringswatermaster.com.

California's Ongoing Drought

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

1 Title 23, Division 2, Chapter 1.5, Subchapter 2 of the California Code of Regulations, which is commonly referred to as the Groundwater Sustainability Plan Regulations (GSP Regulations).

Capital Improvements Program (CIP)

BWD updates its 10-year CIP project costs annually in consultation with its Operations Manager, WWTP Operator and District Engineer. Detail of the projects and costs incurred are included in BWD's annual budget.

Cyber Security Risk Management

BWD has a robust cybersecurity policy and engages in ongoing and periodic intrusion detection services performed by a the US Department of Homeland Security's Cyber Security and Infrastructure Agency(CISA). In addition, the District conducts regular staff trainings on various hacking schemes and has secured a robust Cyber Security Insurance Policy thru ACWA-JPIA.

Flood Risk Management

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

Groundwater Water Levels and Water Quality Changes Risk Management

The groundwater level monitoring network includes 23 dedicated monitoring wells and 27 extraction wells. Of the 50 wells in the network, 46 are monitored for groundwater levels, 30 are monitored for water quality, and 19 are monitored for production. Manual groundwater level measurements are collected in the spring and fall of each year to track seasonal groundwater trends. Groundwater quality monitoring includes sampling, on average, 30 wells on a semi-annual basis to determine and track groundwater quality trends. Wells are monitored for potential Contaminants of Concern (COCs). The COCs include arsenic, fluoride, nitrate, sulfate and total dissolved solids (TDS). During recent years, BWD's well ID4-18 in the North Management area has shown an increasing trend in nitrate levels. Although still below drinking water standards, BWD continues to closely monitor water quality and is currently exploring avenues for future mitigation.

FACTORS AFFECTING FINANCIAL CONDITION

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

Local Economy

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

Under the Stipulated Judgement, a court order effective April 8, 2021, the Borrego Springs Watermaster was formed and is required to collect fees from all major pumpers of the basin according to their BPA(Baseline Pumping Allocation). For Water Year 2023 this amount was $45.73/Acre Foot and $26.59/Acre Foot for Water Year 2024. In Fiscal Year 2023 the District closed on the purchase of a portion of 420 acres of citrus groves at the north end of DiGiorgio Road and committed to purchase another 300 acres over the following 8 years. $5.5 M is budgeted for water right purchase and land fallowing activities. Once the citrus is fallowed, BWD will add 670 AF to its existing 2040 water rights of approximately 900 afy. The District has revised its revenue requirements and is planning to build reserves for BPA acquisition and payback of cash reserves used for the purchase.

Borrego Springs is considered a Disadvantaged Community (SDAC) and an Economically Distressed Area (EDA). An EDA is defined as a geographic area with a population of 20,000 or less with an annual MHI that is less than 85% of the California statewide MHI, and with at least one of the following conditions, as determined by the Department of Water Resources (DWR): a) financial hardship; b) unemployment rate at least 2% higher than the statewide average; or c) low population density.

Previous Fiscal Years Spending by the District

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

Due to historically low interest rates, in October of 2022, BWD was able to refinance the remaining principal of the $5.5 million Pacific Western Bond and issued an additional $3 million with Capitol One Public Financing. About $1.5 million is allocated to complete construction of new production well ID5-15 and to perform necessary rehab and repairs on various existing production wells. The remaining $1.5 million was utilized to purchase additional BPA in FY23.

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

Grant and Other Funding Opportunities: BWD has aggressively pursued Grant and other funding sources to fund deferred infrastructure replacement. CA Proposition One and 68 plus Direct Federal Congressional Appropriations received in the past few years is approaching $10 M, which provides significant relief compared to generating this quantity of funds thru water rates and charges

Environmental and Climate Changes

With the emergence of Anthropogenic Climate Disruption (climate change), the current scientifically accepted prognosis is for potentially greater future climate variability. Such variability may result in higher frequency of floods and longer periods of lower precipitation in the Park's watersheds that provide recharge to the Subbasin, and increased risk for wildfires due to longer, drier conditions. Thus, climate changes may introduce additional costs for the District to provide potable municipal water to its customers. These factors will be considered in future Basin sustainability modeling.

Long-Term Financial Planning

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

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

RELEVANT FINANCIAL POLICIES

Reserve Policy

The District has established a Reserve Funds Policy to anticipate and to prepare for future funding requirements as well as for unforeseen events. The Reserve Funds Policy establishes restricted and unrestricted reserves and describes the flow of funds to and from the various reserves. A copy of the District's updated and approved Reserve Funds Policy, along with the projected reserve funds targets, is available on the District's website as a component of the most recent fiscal year budget document. Due to the purchase of water rights and fallowing expenses, BWD cash reserves dip to a projected low of $1.8M in 2030. Increases in water fixed and commodity rates, one time cash contributions from a Developer and expenditure deferral are all techniques planned to be used to rectify the situation. Once debt service on water right purchase is complete in FY2030, reserve funds begin to recover.

Risk Management

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

Pension and Other Post-Employment Benefits

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

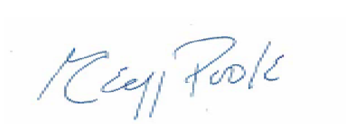
Investment Policy

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

Internal Controls

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

Respectfully submitted,



Geoffrey Poole, General Manager

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Independent Auditor's Report

Board of Directors
Borrego Water District
Borrego Spring, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities, and the aggregate remaining fund information of Borrego Water District (District) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2024, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Borrego Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the M*anagement's Discussion and Analysis, Schedule of Plan's Proportionate Share of Net Pension Liability and Related Ratios, and Schedule of Contributions to the Pension Plan* be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Report on Summarized Comparative Information

The financial statements of the District for the year ended June 30, 2023 were audited by other auditors whose report dated May 28, 2024 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Management is responsible for the other information included in the Financial Statements. The other information comprises the *introductory section* but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2024 on our consideration of the District internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

DavisFarr LLP

Irvine, California
December 10, 2024

BORREGO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2024

Our discussion and analysis of the financial performance of Borrego Water District (District) provides an overview of the District's financial activities for the year ended June 30, 2024. Please read it in conjunction with the District's financial statements which begin on page 10.

Financial Statements

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

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

The Statement of Net Position includes information on District assets, deferred outflows of resources, liabilities, and deferred inflows of resources, which provide information about the nature and amounts of investments in resources (assets), the obligation to District creditors (liabilities), and is one way to measure financial health or financial position. Over time, increases or decreases in District net position may serve as a useful indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth, and new or changed government legislation must also be considered—see the Introductory and Statistical Sections of this report for further information:

The Statement of Revenues, Expenses, and Changes in Net Position identifies District revenues and expenses for the fiscal year ended June 30, 2024. This statement provides information on the District's operations over the past fiscal year and can be used to determine whether the District has recovered all its actual and projected costs through user fees and other charges.

The Statement of Cash Flows provides information on District cash receipts, cash payments, and changes in cash resulting from operations, investments, and financing activities. From the Statement of Cash Flows, the reader can obtain comparative information on the source and use of cash, and the change in the cash balance from the last fiscal year.

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

In addition, the District reports Required Supplementary Information on the District's Pension Plan (Pension) and Fiduciary Fund types. This consists of two additional statements: Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. The Fiduciary Funds Statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

BORREGO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2024

Financial Highlights

During the fiscal year ended June 30, 2024, the following events impacted, or have the potential to impact, the finances of the District.

- Capital assets increased $1,886,593 due to rebuilding Rams Hill Tank #2, Indian Head Tank and Twin Tanks, installation of an Air Pollution Control Board approved back-up diesel motor at the Wilcox Well (ID4-20) and completion of the WWTP monitoring wells.

- The District earned grant revenue of $3,181,303. $3,062,794 was received through funding provided in full or in part under the Safe and Affordable Drinking Water Fund through an agreement with the State Water Resource Control Board to replace three water reservoir tanks and the diesel motor. In addition, the District earned $94,509 funded thru a Sustainable Groundwater Management Act Implementation Grant for installation of AMI infrastructure and Monitoring Well installation at the WWTP as well as reimbursement of administrative costs to administer the grant which includes five other projects in cooperation with the Borrego Springs Unified School District, the Borrego Valley Stewardship Council, the Borrego Springs Watermaster and UC Irvine.

- Total operating revenues decreased $114,298 primarily due to previously written off sewer charges being collected in FY23.

- Total operating expenses increased $449,616 as a result of increased pension, salaries, pumping and watermaster expenses as well expenses for sewer line cleaning for Town Center Sewer and engineering fees for a Groundwater Quality Risk Assessment Study.

- Nonoperating expenses exceeded non-operating revenue as property taxes and investment income were less than interest expense.

- Capital contributions increased $2,286,085 as a result of the previously mentioned grant revenue from the State Water Resource Control Board.

- Cash and cash equivalents decreased to $4,736,762 at June 30, 2024 from $6,219,575 at June 30, 2023 primarily due to the water right acquisition payments and outstanding grant reimbursements for the Twin Tank project.

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

Net Position

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

	2024	2023	Dollar Change
Assets:			
Current assets	$ 7,174,897	$ 7,598,646	$ (423,749)
Capital assets	26,721,319	24,834,726	1,886,593
Noncurrent assets	106,200	5,575	100,625
Total Assets	34,002,416	32,438,947	1,563,469
Deferred Outflows of Resources	596,471	673,725	(77,254)
Liabilities:			
Current liabilities	1,282,719	2,304,314	(1,021,595)
Noncurrent liabilities	8,539,251	9,097,948	(558,697)
Total Liabilities	9,821,970	11,402,262	(1,580,292)
Deferred Inflows of Resources	70,052	75,095	(5,043)
Net Position:			
Net investment in capital assets	18,923,788	16,178,429	2,745,359
Unrestricted	5,783,077	5,456,886	326,191
Total Net Position	$ 24,706,865	$ 21,635,315	$ 3,071,550

Capital assets increased by $1,886,593 as a number of ongoing CIP projects were capitalized including rebuilding Rams Hill Tank #2, Indian Head Tank and Twin Tanks, installation of an Air Pollution Control Board approved back-up diesel motor at the Wilcox Well (ID4-20) and completion of the WWTP monitoring wells.

Current liabilities decreased due to debt service payments.

BORREGO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2024

Changes in Net Position

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

	2024	2023	Dollar Change
Operating revenues	$ 4,923,750	$ 5,038,048	$ (114,298)
Operating expenses	4,969,246	4,519,630	449,616
Net nonoperating (expenses)	(66,257)	(89,998)	23,741
Change in net position before capital contributions	(111,753)	428,420	(540,173)
Capital contributions	3,183,303	897,218	2,286,085
Change in net position	3,071,550	1,325,638	1,745,912
Net position, beginning	21,635,315	20,309,677	1,325,638
Net position, ending	$ 24,706,865	$ 21,635,315	$ 3,071,550

Net-nonoperating expenses decreased due to a decrease in interest expense and an increase in property tax revenue.

Capital contributions increased $2,286,085 as a result of the previously mentioned grant revenue from the State Water Resource Control Board.

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BORREGO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2024

Capital Assets

Capital assets consist of the following at June 30:

	2024	2023	Dollar Change	Percentage Change
Land	$ 1,519,292	$ 693,702	$ 825,590	119.01%
Construction in progress	2,885,832	5,317,881	(2,432,049)	-45.73%
Fallowed water credits	932,050	932,050	-	0.00%
Water rights- ID No. 4	185,000	185,000	-	0.00%
Water rights -William Bauer	1,395,279	1,364,961	30,318	2.22%
Flood control facilities	2,751,153	2,794,020	(42,867)	-1.53%
Sewer facilities	2,980,578	2,804,338	176,240	6.28%
Water facilities	12,858,299	9,598,822	3,259,477	33.96%
General facilities	498,817	489,928	8,889	1.81%
Equipment and furniture	488,278	476,478	11,800	2.48%
Vehicles	226,741	177,546	49,195	27.71%
Total	$ 26,721,319	$ 24,834,726	$ 1,886,593	7.60%

The increase in capital assets, net is due to rehab completed on several water tanks previously mentioned. See note 4 for additional details.

Long-Term Debt

	2024	2023	Dollar Change	Percentage Change
Notes payable	$ 7,908,760	$ 8,687,019	$ (778,259)	-8.96%
Compensated absences	236,935	188,995	47,940	25.37%
Total	$ 8,145,695	$ 8,876,014	$ (730,319)	-8.23%

The decrease in overall debt is due to principal payments, offset by an increase in compensated absences. See note 5 for additional details

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 2024-2025 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 to provide water, and insurance coverage.

These indicators were taken into consideration when adopting the District's budget for the fiscal year 2024-2025. 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. Although water commodity rates increased by 5% in Fiscal Year 2024, there was an approximately 7% decrease in the number of units sold.

To remain conservative, the Fiscal Year 2024-2025 budget maintained the lower number of units sold estimate. Although this still results in a year-over-year revenue increase, it is still below the revenue projections resulting from the 2021 Prop 218 compliant rate increase for FY2022-2026 which resulted in a change in rate structure resulting in a 5% increase in water revenues and no increase for sewer revenues for fiscal year 2023, followed by a 5% increase in water revenues and a 4% increase in sewer revenues annually on July 1, through fiscal year 2026. The changes in water rate structure shifted a greater financial burden to high water users while resulting in lower rates for single family homes using a conservative amount of water. While the District previously charged commodity rates for two tiers, the recent changes have created three tiers where tier one is intended to include enough water for domestic use of a single family (0 to 7 units), tier two reflects single family usage plus average desert irrigation (8 to 22 units) and tier three reflects usage outside of what is considered necessary and conservative to a residential dwelling (more than 22 units). Tier three rates are intended to fund the future purchase of supplemental water supply to meet municipal needs.

As a result of unexpected inflation rates for Fiscal Year 2020 thru 2023 and in light of decreased commodity sales, the Board of Directors of the Borrego Water District voted to begin the next Prop 218 compliant rate study a year early, in the Fall of 2024. The Board's goal is to have a new rate structure in place for Fiscal Year 2025-2026 instead of 2026-2027 as previously planned.

On April 8, 2021, the Superior Court approved the Stipulated Judgment which defines Basin water rights for each pumper producing two-acre feet or more in the Basin and imposes a "physical solution" regarding Basin management including use of Basin storage space, overseen by the Superior Court. Under the Sustainable Groundwater Management Act (SGMA), a Stipulated Judgment can serve as an "alternative" to a Groundwater Sustainability Plan (GSP) mandated by SGMA. The judgment allowed the District to recover approximately $300,000 in GSP development costs during fiscal years 2020 thru 2022, and includes an obligation to pay along with other pumpers approximately $30/acre-foot annually for extractions from the Basin, and the District will likely be required to obtain some amount of supplemental water supply to meet municipal needs beginning in five years or sooner, if available.

On June 25, 2024, the District's Board of Directors approved the FY 2025 budget that anticipates Capital Improvement Program (CIP) project's spending of approximately $25,000,000 through FY 2034-35. The Board has engaged the District's financial advisors to develop a financing plan and the District's municipal advisors to conduct a Cost-of-Service study to determine the feasibility and funding plan for these necessary CIP projects. 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 Jessica Clabaugh, Fiscal Officer at the Borrego Water District, 806 Palm Canyon Drive, Borrego Springs, California, 92004 or by telephone at (760) 767-5806.

BORREGO WATER DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2024
(with comparative information for 2023)

	2024	2023
Current assets		
Cash and investments (Note 2)	$ 4,630,562	$ 6,214,000
Accounts receivable, net	703,934	1,037,887
Watermaster receivable	11,592	11,592
Grant receivable	1,021,739	-
Accrued interest receivable	13,227	16,527
Property tax receivable	2,896	3,967
Inventories	213,023	198,155
Prepaid items	577,924	116,518
Total current assets	7,174,897	7,598,646
Non-current assets		
Restricted assets:		
Cash and investments (Note 3)	106,200	5,575
Total non-current assets	106,200	5,575
Capital Assets (Note 4)		
Capital assets, not being depreciated	6,917,453	8,493,594
Capital assets being depreciated, net	19,803,866	16,341,132
Total capital assets	26,721,319	24,834,726
Total assets	34,002,416	32,438,947
Deferred outflows of resources		
Deferred outflows related to refunding	5,029	25,147
Deferred outflows related to pension (Note 6)	591,442	648,578
Total deferred outflows of resources	596,471	673,725
Current liabilities		
Accounts payable	248,932	1,354,290
Accrued interest payable	47,262	52,793
Customer deposit	106,200	5,575
Current portion of noncurrent liabilities (Note 5)	880,325	891,656
Total current liabilities	1,282,719	2,304,314
Non-current liabilities		
Note payable, net of current portion (Note 5)	7,111,800	7,908,760
Compensated absences (Note 5)	153,570	75,598
Net pension liability (Note 6)	1,273,881	1,113,590
Total non-current liabilities	8,539,251	9,097,948
Total liabilities	9,821,970	11,402,262
Deferred inflows of resources		
Deferred inflows related to pensions (Note 6)	70,052	75,095
Total deferred inflows of resources	70,052	75,095
Net position		
Net investment in capital assets	18,923,788	16,178,429
Unrestricted	5,783,077	5,456,886
Total net position	$ 24,706,865	$ 21,635,315

See accompanying notes to financial statements

BORREGO WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2024
(with comparative information for 2023)

	2024	2023
Operating revenues		
Water revenues	$ 3,964,183	$ 3,950,320
Sewer service charges	664,525	802,274
Water, sewer and other assessments	239,820	246,751
Other income	55,222	38,703
Total operating revenues	4,923,750	5,038,048
Operating expenses		
Water operations	2,194,411	2,053,070
Pumping	502,651	478,973
Water treatment	39,882	41,214
Sewer operations	640,978	510,810
General and administrative	540,790	461,636
Depreciation	1,050,534	973,927
Total operating expenses	4,969,246	4,519,630
Operating income (loss)	(45,496)	518,418
Non-operating revenues (expenses)		
Property taxes	79,490	76,820
Investment income	68,983	69,885
Interest expense	(214,730)	(236,703)
Total non-operating revenues (expenses)	(66,257)	(89,998)
Income (loss) before capital contributions	(111,753)	428,420
Capital contributions		
Grant revenue	3,183,303	567,186
Capital contributions	-	330,032
Total capital contributions	3,183,303	897,218
Change in net position	3,071,550	1,325,638
Net position - beginning	21,635,315	20,309,677
Net position - ending	$ 24,706,865	$ 21,635,315

See accompanying notes to financial statements

BORREGO WATER DISTRICT

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2024
(with comparative information for 2023)

	2024	2023
Cash flows from operating activities		
Cash receipts from customers	$ 5,031,616	$ 4,500,594
Cash receipts from watermaster reimbursements	-	38,703
Cash payments to suppliers for good and services	(2,319,716)	(1,078,725)
Cash payments to employees for services and benefits	(1,744,812)	(1,221,545)
Other operating cash receipts	-	(64,332)
Net cash provided (used) by operating activities	967,088	2,174,695
Cash flow from non-capital financing activities		
Receipts from property taxes	80,561	75,605
Net cash provided (used) by non-capital financing activities	80,561	75,605
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(4,112,619)	(5,059,049)
Principal paid on long term debt	(778,259)	(750,711)
Interest paid on long term debt	(200,143)	(221,899)
Capital grants	2,488,276	972,932
Capital contributions	-	330,032
Net cash provided (used) by capital and related financing activities	(2,602,745)	(4,728,695)
Cash flows from investing activities		
Interest income	72,283	57,231
Net cash provided (used) by investing activities	72,283	57,231
Net change in cash and investments	(1,482,813)	(2,421,164)
Cash and equivalents - beginning	6,219,575	8,640,739
Cash and equivalents - ending	$ 4,736,762	$ 6,219,575

(continued)

See accompanying notes to financial statements

BORREGO WATER DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED JUNE 30, 2024
(with comparative information for 2023)

	2024	2023
Reconciliation from operating income (loss) to net cash provided (used) by operating activities		
Operating income	$ (45,496)	518,418
Depreciation	1,050,534	973,927
(Increase) Decrease in:		
Accounts receivable, net	7,241	(324,443)
Watermaster receivable	-	110,255
Inventories	(14,868)	(38,630)
Prepaids	(461,406)	(81,956)
Deferred outflows of resources - pension	57,136	(447,288)
Increase (Decrease) in:		
Accounts payable	70,134	1,201,693
Deferred revenue	-	(64,332)
Customer deposits	100,625	(284,563)
Compensated absences	47,940	8,391
Net pension liability	160,291	810,059
Deferred inflows of resources - pension	(5,043)	(206,836)
Net cash used by operating activities	$ 967,088	2,174,695
Cash and Cash Equivalents:		
Financial Statement Classification		
Cash and cash equivalents	4,630,562	6,214,000
Restricted cash and cash equivalents	106,200	5,575
Total cash and cash equivalents	$ 4,736,762	6,219,575
Supplemental disclosure of cash flow information		
Amortization of deferred outflows related to refunding	$ 20,118	20,118

See accompanying notes to financial statements

BORREGO WATER DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2024
(with comparative information for 2023)

	2024	2023
Assets		
Cash (Note 2)	$ 803,608	$ 743,273
Total assets	803,608	743,273
Net position		
Restricted for the benefit of residents of Community Facilities District 2017-01	803,608	743,273
Total net position	$ 803,608	$ 743,273

See accompanying notes to financial statements

BORREGO WATER DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2024
(with comparative information for 2023)

	2024	2023
Additions		
Property taxes and assessments	$ 858,623	$ 844,575
Interest	19,992	12,025
Total additions	878,615	856,600
Deductions		
Outside professional services	14,292	18,064
Trust fees	4,875	4,875
Bond principal	390,000	365,000
Bond interest	409,113	439,317
Total deductions	818,280	827,256
Change in net position	60,335	29,344
Net position - beginning	743,273	713,929
Net position - ending	$ 803,608	$ 743,273

See accompanying notes to financial statements

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

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

The financial statements present the District and its component units. The District is the primary government unit. Component units are those entities, which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District.

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

Basis of Presentation

The District's financial activities are accounted for as an enterprise fund. An enterprise fund is a Proprietary-type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The District also reports the following fiduciary fund type: Custodial Fund used to account for amounts that it collects and distributes on behalf of Community Facility District 2017-01.

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

"Measurement focus" is a term used to describe which transactions are recorded within the various financial statements. "Basis of accounting" refers to when transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus," and the "accrual basis of accounting." Under the economic measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the Statement of Net Position.

The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

Cash and Cash Equivalents

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

Fair Value Measurements

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

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly. Inputs to the valuation methodology include:

    - Quoted prices for similar assets or liabilities in active markets;
    - Quoted prices for identical or similar assets or liabilities in inactive markets;
    - Inputs other than quoted prices that are observable for the asset or liability; and
    - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Note 1 – Summary of Significant Accounting Policies (Continued)

- Level 3 inputs are unobservable inputs for the investment. Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The assets or liability's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes as observable requires judgment by the District's management. District management considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment or liability within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to District management's perceived risk of that investment or liability. The District does not have any investments required to be reported under the hierarchy.

Accounts Receivable

The District extends credit to customers in the normal course of operations. Management has evaluated the accounts and has established an allowance for doubtful accounts for the accounts that they believe are not collectible.

Watermaster Receivable

Pursuant to the State of California adopting the Sustainable Groundwater Management Act (SGMA) in 2014, all parties who pump groundwater from the Borrego Springs Groundwater Subbasin, entered into an agreement (Settlement Agreement) that establishes a physical solution to bring sustainability to the Critically Over-drafted Subbasin. In accordance with the Settlement Agreement, the signing parties agreed to share costs associated with preparation of a Groundwater Sustainability Plan (GSP). The majority of the costs associated with the Settlement Agreement are reimbursed thru the signing parties. Accounts receivable - watermaster reimbursement totaled $11,592 at June 30, 2024.

Inventory

Inventory consists primarily of materials used in the construction and maintenance of capital assets and is valued using the first in, first out (FIFO) costing method.

Note 1 – Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets purchased or acquired with a cost exceeding $5,000 and an estimated useful life of more than one year are reported at historical cost. Donated capital assets, donated works of art, and similar items, and capital assets received in service concession agreements are reported at acquisition value on the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is calculated on the straight-line method over the following estimated useful lives:

Flood control facilities	100 years
Sewer facilities	5 - 75 years
Water facilities	10 - 50 years
General facilities	20 - 50 years
Telemetry system	6 years
Equipment and furniture	5 - 20 years
Vehicles	5 - 40 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflows related to pensions equal to employer contributions made after the measurement date of the net pension liability, differences between actual and expected experience, changes of assumptions, adjustment due to differences in proportions and the net difference between projected and actual earnings.
- Deferred losses on refunding which resulted from the difference in the carrying value of refunded debts and their reacquisition prices. These amounts are shown as deferred outflow of resources and amortized over the shorter of the life of the refunded or refunding debts.

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

- Deferred inflows related to pensions resulting from the net difference between expected and actual experience and differences in proportions.

Note 1 – Summary of Significant Accounting Policies (Continued)

Compensated Absences

Accumulated and unpaid vacation and sick leave totaling $236,935 is accrued when incurred and included in current and noncurrent liabilities at June 30, 2024.

Pensions

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

Generally Accepted Accounting Principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report the following timeframes are used:

Valuation Date	June 30, 2022
Measurement Date	June 30, 2023
Measurement Period	June 30, 2022 to June 30, 2023

Operating Revenues and Expenses

The District recognizes operating revenues from water sales, sewer service charges, availability charges, and other income when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, the District considers fees received from water sales, sewer services and availability charges to be operating revenues.

Nonoperating revenues, such as property taxes and assessments, result from nonexchange transactions or ancillary activities in which the District received value without directly giving equal value in exchange and are recognized as revenues based upon amounts reported to the District by the County of San Diego.

Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

Note 1 – Summary of Significant Accounting Policies (Continued)

Property Taxes and Assessments

Property taxes and assessments are billed by the County of San Diego to property owners. The District's property tax calendar for the fiscal year ended June 30, 2024 was as follows:

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

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

Net Position Flow Assumption

Sometimes the District will fund outlays for a purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted - net position and unrestricted - net position, a flow assumption must be made about the order in which the resources are applied. It is the District's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied, however at the Board's discretion.

Economic Dependency

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

Use of Estimates

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

Note 1 – Summary of Significant Accounting Policies (Continued)

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived. In addition, certain minor reclassifications of the prior year data have been made to enhance their comparability to the current year.

Note 2 - Cash and Investments

Cash and investments held by the District were comprised of the following at June 30, 2024:

Financial Statement Classification:	
Current	
Cash and investments	$ 4,630,562
Restricted	
Cash and investments	106,200
Total	4,736,762
Fiduciary fund:	
Cash and investments	803,608
Total cash and investments	$ 5,540,370

Cash and investments held by the District consisted of the following at June 30, 2024:

Cash on hand	$ 313
Deposits with financial institutions	3,568,471
Investments	1,971,586
Total cash and investments	$ 5,540,370

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

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, and the concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District rather than the general provision of the California Government Code or the District's investment policy:

Note 2 - Cash and Investments (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Quality Requirements
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations	5 years	None	None
California Local Agency Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	None
Commercial Paper	270 days	25%	A1
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	A Rating
Mutual Funds	N/A	20%	Multiple
Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	AA Rating
Time Deposits	5 years	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investment Funds	N/A	None	None

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The district manages its exposure to interest rate risk by purchasing shorter term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing over time as necessary to provide the cash flow and liquidity needed for operations. The District’s investments in LAIF and Money Market Funds have a duration of 1-day to maturity.

Note 2 - Cash and Investments (Continued)

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations are provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2024.

Investment Type	Total	Remaining Maturity (in Months) 12 Months Or Less	13 to 36 Months	More than 36 Months
Local Agency Investment Fund (LAIF)	$ 1,167,978	$ 1,167,978	$ -	$ -
Money Market Funds	803,608	803,608	-	-
Total	$ 1,971,586	$ 1,971,586	$ -	$ -

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF is not rated and the Money Market Fund the District is invested in have a AAA rating. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's Investment Policy, or debt agreements, and the Moody's ratings as of June 30, 2024.

Investment Type	Total	Legal Minimum Rating	Rating as of Year End AAA	Not Rated
Local Agency Investment Fund (LAIF)	$ 1,167,978	N/A	$ -	$ 1,167,978
Money Market Funds	803,608	AAA	803,608	-
Total	$ 1,971,586		$ 803,608	$ 1,167,978

Concentration of Credit Risk

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

The investment policy of the District contains limits on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code as described below. The District holds no investments in any one issuer (other than U.S. Treasury obligations, mutual funds, and external investment pools) that represent 5% or more of total District investments at June 30, 2024.

Note 2 - Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2024, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Investment in State Investment Pool

The District is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Note 3 - Restricted Assets

Restricted assets of $106,200 were provided by Developers and are to be used for capital projects. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as necessary.

BORREGO WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024

Note 4 - Capital Assets

Capital assets consist of the following at June 30, 2024:

	Balance at June 30, 2023	Additions	Deletions	Balance at June 30, 2024
Capital Assets, Not Depreciated				
Land	$ 693,702	$ 825,590	$ -	$ 1,519,292
Construction in progress	5,317,881	1,810,305	(4,242,354)	2,885,832
Fallowed water credits	932,050	-	-	932,050
Water rights- ID No. 4	185,000	-	-	185,000
Water rights -William Bauer	1,364,961	30,318	-	1,395,279
Total capital assets, not depreciated	8,493,594	2,666,213	(4,242,354)	6,917,453
Capital Assets, Being Depreciated				
Flood control facilities	4,287,340	-	-	4,287,340
Sewer facilities	7,254,327	385,154	-	7,639,481
Water facilities	17,775,417	3,926,023	-	21,701,440
General facilities	1,006,881	31,568	-	1,038,449
Telemetry system	46,459	-	-	46,459
Equipment and furniture	1,018,919	86,412	-	1,105,331
Vehicles	757,791	84,111	(1,776)	840,126
Total capital assets being depreciated	32,147,134	4,513,268	(1,776)	36,658,626
Less: accumulated depreciation				
Flood control facilities	(1,493,320)	(42,867)	-	(1,536,187)
Sewer facilities	(4,449,989)	(208,914)	-	(4,658,903)
Water facilities	(8,176,595)	(666,546)	-	(8,843,141)
General facilities	(516,953)	(22,679)	-	(539,632)
Telemetry system	(46,459)	-	-	(46,459)
Equipment and furniture	(542,441)	(74,612)	-	(617,053)
Vehicles	(580,245)	(34,916)	1,776	(613,385)
Total accumulated depreciation	(15,806,002)	(1,050,534)	1,776	(16,854,760)
Capital Assets, Being Depreciated, Net	16,341,132	3,462,734	-	19,803,866
Capital Assets, Net	$ 24,834,726	$ 6,128,947	$ (4,242,354)	$ 26,721,319

Note 5 - Noncurrent Liabilities

Noncurrent liabilities consist of the following at June 30, 2024:

	Balance at June 30, 2023	Additions	Deletions	Balance at June 30, 2024	Due in One Year
Notes Payable:					
2021 Installment Purchase Agreement	$ 7,080,970	$ -	$ (437,070)	$ 6,643,900	$ 447,100
Promissory Note 2018 A	1,336,000	-	(209,000)	1,127,000	212,000
Promissory Note 2018 B	270,049	-	(132,189)	137,860	137,860
Totals Note Payable	8,687,019	-	(778,259)	7,908,760	796,960
Other Noncurrent Liabilities:					
Compensated Absences	188,995	112,285	(64,345)	236,935	83,365
Totals Other Noncurrent Liabilities	$ 8,876,014	$ 112,285	$ (842,604)	$ 8,145,695	$ 880,325

Note 5 - Noncurrent Liabilities (Continued)

Installment Purchase Agreement

In October 2021, the District entered into the 2021 Installment Purchase Agreement with the Borrego Water District Public Facilities Corporation ("Corporation"). The Corporation provided $7,508,930 for the purpose of financing costs of the District for certain improvements in the water and sewer enterprises and to prepay the installment payments due under the 2018 Installment Purchase Agreement. The 2021 Installment Purchase Agreement is payable in semi-annual installments of principal plus interest of 2.190% on or before April 1 and October 1 each year commencing April 1, 2022 through and including October 1, 2036. Payments under the 2021 Installment Purchase Agreement are secured by a lien on and pledge of net revenues.

The District has covenanted to fix, prescribe, revise, and collect rates, fees, and charges for services and facilities sufficient to yield estimated net revenues equal to 125% of the aggregate amount of debt service on all parity obligations payable from net revenues coming due and payable during such fiscal year. The District had net revenues of 146% of debt service for the year ended June 30, 2024. The 2021 Installment Purchase Agreement had an outstanding principal balance of $6,643,900 and accrued interest payable of $36,375 at June 30, 2024.

Promissory Note 2018A

In July 2018, the District entered into a promissory note with Compass Bank in the amount of $2,294,000 for the purpose of defeasing and prepaying the Borrego Water District Refunding Installment Purchase Agreement. The promissory note is payable in semi-annual payments of principal and interest at 3.35% commencing October 1, 2018 through and including October 1, 2028. Payments under the promissory note are secured by a lien on and pledge of net revenues. The District has covenanted to fix, prescribe, revise, and collect rates, fees, and charges for services and facilities sufficient to yield estimated net revenues equal to 105% of the aggregate amount of debt service on all parity obligations payable from net revenues coming due and payable during such fiscal year. The District had net revenues of 263% of debt service for the year ended June 30, 2024. The Promissory Note 2018A had an outstanding principal balance of $1,127,000 and accrued interest payable of $9,439 at June 30, 2024.

Promissory Note 2018B

In July 2018, the District entered into a promissory note with Compass Bank in the amount of $863,535 for the purpose of defeasing and prepaying the 2015 Compass Bank Note. The promissory note is payable in semi-annual payments of principal and interest at 4.20% commencing October 1, 2018 through and including October 1, 2024. Payments under the promissory note are secured by a lien on and pledge of net revenues. The District has covenanted to fix, prescribe, revise, and collect rates, fees, and charges for services and facilities sufficient to yield estimated net revenues equal to 105% of the aggregate amount of debt service on all parity obligations payable from net revenues coming due and payable during such fiscal year. The District had net revenues of 263% of debt service for the year ended June 30, 2024. The Promissory Note 2018B had an outstanding principal balance of $137,860 and accrued interest payable of $1,448 at June 30, 2024.

Note 5 - Noncurrent Liabilities (Continued)

Debt service requirements on notes payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2025	$ 796,960	$ 177,704	$ 974,664
2026	677,050	157,673	834,723
2027	689,900	140,135	830,035
2028	706,660	122,215	828,875
2029	729,330	103,754	833,084
2030-2034	2,604,210	331,697	2,935,907
2035-2038	1,704,650	56,549	1,761,199
	$ 7,908,760	$ 1,089,727	$ 8,998,487

Note 6 - Defined Benefit Pension Plan

General Information About the Pension Plan

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

Benefits Provided - The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Miscellaneous plan members with five years of service are eligible to retire at age 50 with statutory reduced benefits. PEPRA Miscellaneous members with five years of service are eligible to retire at age 52 with statutory reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is the Basic Death Benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees Retirement Law per contract. The Plan's provisions and benefits in effect at June 30, 2024, are summarized as follows:

Note 6 - Defined Benefit Pension Plan (Continued)

		On or After January 1, 2013	
	Prior to January 1, 2013 Miscellaneous	With Prior Service 2nd Tier	Without Prior Service PEPRA
Benefit formula	3.0% @ 60	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50	50 - 63	52 - 67
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.81%	6.93%	7.75%
Required employer contribution rates	16.44%	10.10%	7.68%

In addition to the contribution rates on the previous page, the District was also required to make a payment of $73,340 toward its unfunded actuarial liability during the year ended June 30, 2024.

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

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. 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.

Note 6 - Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increase	Varies by entry age and service
Mortality Rate Table[1]	Derived using CalPERS' membership data for all funds
Post Retirement Benefit Increase	The lesser of contract COLA up to 2.30% until purchasing power protection allowance floor on purchasing power applies, 2.30% thereafter.

[1] The mortality table was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the 2021 experience study report from November 2021 that can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 6 - Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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. Using historical returns of all of the funds' asset classes, expected component (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points. The expected real rates of return by asset class are as follows:

Asset Class	Assumed Asset Allocation	Real Return [1, 2]
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-Cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	(5.00%)	(0.59%)

[1] An expected price inflation of 2.3% used for this period.
[2] Figures are based on the 2021-22 Asset Liability Management study.

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

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

	Discount Rate -1% 5.90%	Current Discount Rate 6.90%	Discount Rate +1% 7.90%
Net Pension Liability/(Asset)	$ 2,125,270	$ 1,273,881	$ 573,115

Note 6 - Defined Benefit Pension Plan (Continued)

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

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

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2023	$ 5,712,108	$ 4,598,518	$ 1,113,590
Balance at: 6/30/2024	6,295,125	5,021,244	1,273,881
Net Changes during 2023-24	$ 583,017	$ 422,726	$ 160,291

The net pension liability of the plan is measured as of June 30, 2023, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation of June 30, 2022 rolled forward to June 30, 2023 using standard update procedures. The proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share percentage of the net pension liability as of June 30, 2022 and June 30, 2023 was as follows:

Proportion at measurement date - June 30, 2022	0.02380%
Proportion at measurement date - June 30, 2023	0.02548%
Change - increase (decrease)	0.00168%

Actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expenses.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5-year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with pensions (active, inactive, and retired) as of the beginning of the measurement period

Note 6 - Defined Benefit Pension Plan (Continued)

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis.

For the year ended June 30, 2024, the District recognized a pension expense of $331,174 for the Plan.

As of June 30, 2024, the District reports deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 120,668	$ -
Change of assumptions	76,910	-
Differences between expected and actual experience	65,199	10,096
Changes in employer's proportions	122,412	59,956
Net differences between projected and actual earnings	206,253	-
	$ 591,442	$ 70,052

The $120,668 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2025. Other amounts reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2025	$ 134,260
2026	97,251
2027	163,171
2028	6,040
	$ 400,722

Note 7 – Risk Management

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

Note 7 – Risk Management (Continued)

At June 30, 2024, the District participated in the self-insurance programs of the Authority as follows:

Property Loss - Provides for full value replacement of real and personal property owned by the District in the event of a loss. Actual cash value on licensed vehicles, mobile equipment and watercraft. The JPIA pools for the first $10,000,000 and has purchased excess coverage up to $500 million.

General and Auto Liability - Insured up to $55 million per occurrence; the Authority is self-insured up to $5,000,000 and excess insurance coverage has been purchased up to $55 million. The general and auto liability program has no deductible.

Public Officials' Liability - Insured up to $55 million per occurrence; the Authority is self-insured up to $5,000,000 and excess insurance coverage has been purchased up to $55 million.

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

Cyber Liability - Provides coverage from financial losses resulting from data breaches and other cyber events. Insured up to $3 million per member and $5 million policy aggregate.

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

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

The District pays annual premiums for this coverage. They are subject to retrospective adjustments based on claims experienced. The nature and amounts of the adjustments cannot be estimated and are charged to expense as invoiced. The District's insurance expense totaled $103,588 for the year ended June 30, 2024. There were no instances in the past three years where a settlement exceeded the District's coverage.

Note 8 - Commitments and Contingencies

Contracts

The District has entered into various contracts for the purchase of material and construction of capital assets. The amounts contracted are based on the contractor's estimated cost of construction. At June 30, 2024, the total unpaid amount on these contracts is approximately $1,603,841.

In May of 2023, the District entered into a $4,261,515 multi-year agreement with David and Juli Bauer of Borrego Farms to incrementally fallow and convey to the District approximately 400 acres of farmland and 1,820 AF of BPA by October of 2030. At June 30, 2024, approximately $3,016,000 remains to be paid.

Note 8 - Commitments and Contingencies (Continued)

The District has agreed to take over for a sub-grantee under the Prop 68 grant that was unable to fulfill their contract. The District has agreed to cover project expenses under Component 5 until reimbursement is received by the Department of Water Resources. The District has incurred $24,610 to date and the remaining project budget is over $125,000.

Litigation

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

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

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

These financings were accomplished through the authorization of special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 adopted by the Board of Directors of the Borrego Water District acting as the legislative body of the Community Facilities Districts. The bonds are only payable from certain proceeds of an annual special tax to be levied and collected from property located within the Community Facilities Districts and from certain bond proceeds pledged in the issuances. If the special taxes are not paid when due, the only source of funds to repay the bonds are cash deposits or letters of credit provided by property owners, amounts held in the bond reserve funds, or proceeds, if any, from foreclosure sales of land within the Community Facilities Districts following a delinquency in a special tax payment. Neither the faith nor credit nor the taxing power of the Borrego Water District, the State of California, or any other political subdivision thereof is pledged to the payment of these bonds. Therefore, the Community Facilities Districts are considered separate reporting entities. The District reports as a fiduciary fund the cash it holds on behalf of Community Facilities District No. 2017-01. The outstanding balance of the 2017A and 2017B bonds are $730,000 and $9,360,000, respectively.

BORREGO WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2024

SCHEDULE OF PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS LAST TEN YEARS

Measurement date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
Proportion of the Net Pension Liability	0.02774%	0.02380%	1.59850%	0.02271%	0.02225%
Proportionate Share of the Net Pension Liability	$ 1,273,881	$ 1,113,590	$ 303,531	$ 935,284	$ 891,132
Covered Payroll - Measurement Period	$ 1,079,991	$ 955,752	$ 858,482	$ 850,749	$ 740,131
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	117.95%	116.51%	35.36%	109.94%	120.40%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.76%	80.50%	94.08%	79.54%	78.92%

Measurement date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the Net Pension Liability	0.02256%	0.02313%	0.00947%	0.01010%	0.01123%
Proportionate Share of the Net Pension Liability	$ 850,153	$ 911,898	$ 819,059	$ 693,352	$ 699,055
Covered Payroll - Measurement Period	$ 698,023	$ 675,819	$ 658,514	$ 671,180	$ 595,422
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	121.79%	134.93%	124.38%	103.30%	117.40%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.34%	74.72%	73.72%	77.21%	73.72%

Notes to Schedule

Change in Benefit Terms - There were no changes to the benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees such as Golden Handshakes, service purchases, and other prior service costs. Employers that have done so may need to report this information as a separate liability in their financial statement as CalPERS considers such an amount to be separately financed employer-specific liabilities. These employers should consult with their auditors. Additionally, the figures above do not include any liability impact that occurred after the June 30, 2022 valuation date, unless the liability impact is deemed to be material to the Public Agency Pool.

In 2022, SB 1168 increased the standard retiree lump sum death benefit from $500 to $2,000 for any death occurring on or after July 1, 2023. For pooled plans this is a Class 3 benefit and there is no normal cost surcharge. The impact on the unfunded liability is included in the pool's differences between expected and actual experience.

Changes in Assumptions - There were no assumption changes in 2023. Effective with the June 30, 2021 valuation date (June 30, 2022 measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. In addition, demographic assumptions and the price inflation assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. The accounting discount rate was 7.15% for measurement dates June 30, 2017 through June 30, 2021, 7.65% for measurement dates June 30, 2015 through June 30, 2016, and 7.50% for measurement date June 30, 2014.

BORREGO WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30,2024

SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN
LAST TEN YEARS

Fiscal year	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020
Actuarially determined contribution	$ 120,668	$ 189,898	$ 157,894	$ 142,096	$ 189,335
Contributions in relation to the actuarially determined contributions	(120,668)	(189,898)	(157,894)	(142,096)	(189,335)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 1,177,539	$ 1,079,991	$ 955,752	$ 858,442	$ 850,749
Contributions as a percentage of covered payroll	10.25%	17.58%	16.52%	16.55%	22.26%

Fiscal year	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Actuarially determined contribution	$ 162,515	$ 142,789	$ 137,737	$ 138,613	$ 129,138
Contributions in relation to the actuarially determined contributions	(162,515)	(142,789)	(137,737)	(138,613)	(129,138)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 740,131	$ 698,023	$ 723,125	$ 671,180	$ 595,422
Contributions as a percentage of covered payroll	21.96%	20.46%	19.05%	20.65%	21.69%

Notes to Schedule:

Fiscal Year End:	June 30, 2024
Valuation Date:	June 30, 2021

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry age actuarial cost method
Amortization Method	Varies by date established and source. May be level dollar or level Percent of pay and may include direct rate smoothing.
Asset Valuation Method	Market value of assets
Inflation	2.30%
Salary Increases	Varies by category, entry age, and duration of service.
Payroll Growth	2.80%
Investment Rate of Return	6.80% net of pension plan investment and administrative expenses; Includes inflation