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BORREGO WATER DISTRICT
REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
JUNE 30, 2014 AND JUNE 30, 2013

BORREGO WATER DISTRICT

INTRODUCTORY SECTION

JUNE 30, 2014

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BORREGO WATER DISTRICT

September 24, 2014

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

State law requires that all general-purpose local governments and special districts publish each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The Annual Financial Report of the Borrego Water District (“BWD” or “District”) for fiscal year ended June 30, 2014 is hereby submitted as required. Hosaka, Rotherham & Company, a firm of licensed certified public accountants, has audited the District's financial statements.

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

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

The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2014 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, 2014 are fairly presented in conformity with GAAP. The Independent Auditors’ Report is presented as the first component of the financial section of this report.

PROFILE OF THE DISTRICT

The District was established in 1962 as State of California special district (Water Code § 35565) to provide water, sewer, flood control and gnat abatement for areas in the Borrego Springs community. The District presently serves approximately 2,100 customers. Borrego Springs is an unincorporated community of 3,500 full-time and more than 6,000 winter residents located in the northeast corner of San Diego County approximately 90 miles drive from San Diego.

Borrego Springs is surrounded on all sides by the Anza-Borrego Desert State Park (ABDSP; “the Park”). The ABDSP, which encompasses 600,000 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. ABDSP is the largest state park in California and one of the largest protected desert areas in the western US. 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 70% of designated wilderness area within the State of California.

Governance

A five-member board of directors works as a team to govern the affairs of the District. The board is elected at large by the registered voters residing within the District's boundaries, with vacant positions that occur between elections appointed by the existing board and during election years by the San Diego County Board of Supervisors if there is no competition for a seat on the board. The directors, who are elected or appointed, are residents and have the same concerns as their constituents. The board members, who serve four-year staggered terms, are responsible for establishing the direction of the District through adopting policies and ordinances for the smooth running of the District, ensuring that sound fiscal policy exists and that sound 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 General Counsel, financial and other advisors. The General Manager is responsible for carrying out the policies and ordinances approved by the District board, for overseeing the day-to-day operations of the District and for meeting or exceeding the financial objectives set forth in the annual budget approved by the board.

Groundwater Supply, Usage & Availability

The Borrego Valley Groundwater Basin (BVGB: "the Basin"), a Pleistocene era water deposit is presently the community's sole source of water. Historically, Native Americans inhabited the Valley and utilized the springs and surface water sources issuing from the nearby mountain ranges. Cattlemen began homesteading the Borrego Valley in about 1875. The first successful modern well was dug in 1926, which quickly led to irrigation farming.

Today, annual withdrawals exceed replenishment by more than 4 to 1. Groundwater-level declines of more than 100 feet in some parts of the groundwater basin and anthropogenic activities have resulted in an increase in pumping lifts, reduced well efficiency, dry wells, changes in water quality, and loss of natural groundwater discharge. Today, water levels in the Basin are declining on average about 2.7 feet a year. However, if the overdraft continues, water levels are projected to drop at an ever-faster rate as more withdrawal occurs from the middle and lower aquifers of the Basin. At the current rate of use, the groundwater supply is not sustainable.

The current rate of groundwater pumping produces an average annual basin storage change (overdraft) of about 13,400 acre-feet (AF) of water per year (USGS, 2014). The largest water level declines are found in the northern part of basin where most of the approximately 3,700 acres of primarily citrus agricultural acreage is concentrated and in the southwestern part of the Basin where commercial and residential activity is primarily located.

Of the current average annual withdrawals from the Basin, agricultural irrigation in the Valley accounts for about 14,000 acre feet per year [AFY] (approximately 70%) of the average annual overdraft, recreational uses (golf courses) account for about 4,000 AFY (approximately 20%) of the average annual overdraft and residential/commercial uses account for about 2,000 AFY (approximately 10%) of the total annual overdraft. Natural net replenishment (recharge) of the Basin averages around 5,600 AFY annually (USGS, 2014). Annual natural net recharge can fluctuate in the arid climate from less than 1,000 AFY in dry years to more than 15,000 AFY (USGS, 2014).

The District believes that sustainable groundwater management requires the development, implementation and updating of management plans based on the best available science, monitoring, forecasting, and use of technological resources and best management practices. The District adopted a groundwater management plan (GWMP) under Assembly Bill 3030 (AB 3030) in 2002. The area covered

by the GWMP is the District's boundaries, which encompasses almost the entire Basin. In October 2013, the District's Board passed a resolution to update the 2002 GWMP. The District has broad authority, though the AB 3030 process, to manage the Basin. However, in 2014, the California State legislature has introduced new legislation that brings for the first time in California comprehensive groundwater regulation. This new legislation, if passed, would remove present ambiguities and strengthen the District's groundwater management authorities legislated under AB 3030.

During this year, the District continued its participation as a member of the Borrego Water Coalition (BWC; "the Coalition"). The Coalition comprises local leaders from the Chamber of Commerce, agriculture, the District, education, golf, lodging, State Park and recreation. The Coalition represents almost all the major pumpers and water users of the Basin.

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

FACTORS AFFECTING FINANCIAL CONDITION

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

Local Economy

The local economy and the income of retirees living in the Borrego community continues to be affected by the general downturn in the economy of California and the nation. Uncertainty over long-term water supply may be slowing new development in the Borrego Valley ("the Valley"). In recent years the non-native Sahara mustard plant has devastated the beautiful fields of wildflowers normally found in the Valley. This invasive species has created damage to the local ecosystems of the Valley and presently shows little sign of abatement. Instead of fields of wildflowers that have attracted thousands of visitors in the spring, as the wildflower fields have declined in recent years, so have the number of visitors to the Valley.

Previous Fiscal Years Spending by the District

The District continues to work itself out of the financial situation that was inherited from the past Board and general manager who between FY 2008 – FY 2011 spent more than \$6.3 million of the District's cash reserves. This spending resulted in the District losing its good credit rating. The District has not been able to borrow in the public bond markets for its capital improvement program (CIP) and has deferred major repair and replacement (R&R) projects until it is creditworthy again.

Long-Term Financial Planning

The District's present Board of Directors is aware of the need to restore the District's financial stability and return to creditworthiness. Through a coordinated strategic process, the Board has established a series of policies and plans to effectively meet the District's anticipated future revenue needs. The principles the District has adopted for returning to revenue sufficiency include: (a) the active management and projection of monthly cash flow during the year; (b) holding expenditures below the annual budget; (c) no increases in salaries and benefits for employees; (d) deference of large capital expenditures until the District is able to borrow again in the public bond markets; and (e) implementing annual water and sewer rate increases each year.

The primary driver for the long-term financial viability of the District, as well as the economy of the Valley is the necessity of resolving the overdraft of the Basin (see section on Groundwater Supply, Usage & Availability above).

RELEVANT FINANCIAL POLICIES

Reserve Policy

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

Risk Management

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

Pension and Other Post-Employment Benefits

The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employees defined benefit pension plan for its personnel. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Additional information about the District's pension arrangements and post-employment benefits can be found in the notes to the financial statements. In FY 2012, the Board changed the pension program from three percent (3%) per year of active service at retirement that was instituted by the prior Board in 2009, back to its previous two percent (2%) per year of active service at retirement. This new pension policy is in effect for employees of the District hired after April 1, 2012 only.

Investment Policy

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

Internal Controls

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

Respectfully submitted,



Jerry Rolwing
General Manager

BORREGO WATER DISTRICT

FINANCIAL SECTION

JUNE 30, 2014



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
CEO & Managing Partner

Roy T. Hosaka, CPA
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James C. Nagel, CPA
Retired

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Borrego Water District
Borrego Springs, California

Report on the Financial Statements

We have audited the accompanying financial statements of Borrego Water District, as of and for the fiscal years ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Minimum Auditing Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Borrego Water District, as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

REPORT OF INDEPENDENT AUDITORS
Page 2

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2014, on our consideration of the Borrego Water District's 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 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 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 Borrego Water District's internal control over financial reporting and compliance.

Hosaka, Rotherham & Company

San Diego, California
August 26, 2014

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Our discussion and analysis of the Borrego Water District (District) basic financial statements provide general readers with an overview of the District's financial position and results of operations for the fiscal year ended June 30, 2014. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited financial statements. These statements are located in the section following the MD&A. This discussion and analysis, as well as the basic financial statements that it accompanies, have been prepared by management of the District and are its responsibility.

FINANCIAL HIGHLIGHTS

During the fiscal year ended June 30, 2014, the following events impacted, or have the potential to impact, the finances of the District:

- On July 16, 2013, the District's Board of Directors approved an update to the Mesquite Trails Water Service Agreement for 120 equivalent development units (EDUs) to reflect current development policies and fees.
- On July 24, 2013 the District's Board of Directors set the price for water credits sold by the District at \$3,600 for T-1 and AG-1 (County and District acceptable) credits and \$2,750 for T-2 and AG-2 (District acceptable) credits.
- On October 23, 2013, the District held a public hearing regarding the proposed adoption of a resolution of intention to update the 2002 Groundwater Management Plan (GWMP). The District's Board of Directors passed the resolution unanimously.
- On January 27, 2014, the District's Board of Directors approved an Agreement to Resolve Outstanding Claims and Establish Long-Term Cooperation for the Delivery of Water to the Rams Hill Golf Course ("the Agreement") with T2 Borrego LLC and T2 Holding LLC (collectively "T2"), both Colorado limited liability companies. Under the terms of the Agreement, the District paid T2 \$372,963 remaining amount due for the purchase of ID1-12 production well and T2 paid the District: \$50,424 for past due availability fees; \$25,369 for current year availability fees; \$106,436 for the purchase of ID1-1 and 2 irrigation wells and agreed to lease spare capacity of non-potable, interruptible supply representing a minimum of 1,000 acre-feet over a 5-year period on a take or pay basis paid semi-annually in advance. T2 further agreed to purchase and fallow farmland in the Valley representing 800 acre-fee per year (AFY) of AG1 water credits over a 5-year period. These water credits could then be used to satisfy County and/or District water credit requirements for new development at Rams Hill in the future. T2 further agreed to follow District water-conserving landscaping requirements for new development. The District allowed T2 to drill additional irrigation wells on Rams Hill Development property that conform to strict technical requirements for non-interference to existing District and other wells near the Rams Hill property. T2 also agreed to pay penalties to the District for exceeding a water budget for the golf course, to be established over a 3-year period once the golf course was re-established. If the water budget exceeds 800 AFY, T2 would be required to purchase additional farmland to fallow beyond 800 AFY.
- On May 20, 2014, the District's Board approved a budget for fiscal year 2015 that included rate increases for fiscal year 2015 of 5.0% for sewer rates; 0% for water base rates; and 10% for water commodity rates over the FY 2014 rates in effect. The new rates took effect July 1, 2014 and are reflected initially in customers' August billings.

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

FINANCIAL HIGHLIGHTS (CONTINUED)

- The income from operations for the fiscal year ended June 30, 2014, was \$576,076 compared with income from operations of \$190,285 for FY 2013.
- Cash and cash equivalents increased to \$2,086,750 at June 30, 2014, from \$1,497,301 at June 30, 2013.
- The change in net position for the fiscal year ended June 30, 2014, was an increase of \$399,450 compared to a decrease in net position of \$248,374 for FY 2013.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements accompanying the Management's Discussion and Analysis present the financial position, the results of operations, and cash flows using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities.

Statement of Net Position

The Statement of Net Position presents the District's financial position (assets and liabilities) as of June 30, 2014. Assets in excess of liabilities (Net Position) were \$12,920,158 and \$12,520,618 as of June 30, 2014 and 2013, respectively. In accordance with generally accepted accounting principles (GAAP), capital assets are recorded at historical cost. Net position is accumulated from revenues in excess of expenses, and contributed capital combined with the beginning balance of net position as presented in the Statement of Revenues, Expenses and Changes in Net Position.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the District's results of operations for the year ended June 30, 2014 and 2013. In accordance with GAAP, revenues are recognized (recorded) when water or services are provided, and expenses are recognized when incurred. Operating revenues and expenses are related to the District's core activities (providing water, sewer, pest control and flood control services). Non-operating revenues and expenses are not directly related to the core activities, e.g. investment income, interest expense, etc. The operating income for the fiscal year ended June 30, 2014, of \$576,076, is combined with net non-operating revenues and expenses of (\$176,536) to arrive at the change of net position of \$399,540. The increase in net position is added to beginning net position of \$12,520,618 and to arrive at the ending net position of \$12,920,158 as of June 30, 2014.

One of the most important questions asked about the District's finances is, "How has the District's position changed as the result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position present information about the District's activities that help answer this question. These two statements report the net position of the District and the changes to

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

them. The District's net position, the difference between assets and liabilities, may be thought of as one way to measure its financial health or financial position. Over time, increases or decreases in net position can be an indicator as to whether the financial health is improving or deteriorating. However, it is incumbent upon the observer to consider other non-financial factors such as the regulatory climate, economic conditions, population growth, zoning changes, environmental changes, etc.

Analysis of Net Position

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

Borrego Water District's Net Position:

	2014	2013	2013/2014 Variance	
			\$	%
ASSETS				
Cash and investments	\$ 2,086,750	\$ 1,497,301	\$ 589,449	39.37%
Capital assets	14,705,224	14,943,502	(238,278)	-1.59%
Other assets	758,645	1,004,992	(246,347)	-24.51%
TOTAL ASSETS	\$ 17,550,619	\$ 17,445,795	\$ 104,824	
LIABILITIES AND NET POSITION				
Current liabilities	\$ 434,237	\$ 297,870	\$ 136,367	45.78%
Noncurrent liabilities	4,196,224	4,627,307	(431,083)	-9.32%
Total liabilities	4,630,461	4,925,177	(294,716)	-5.98%
Net position				
Net investment in capital assets	10,530,224	10,301,352	228,872	2.22%
Unrestricted	2,389,934	2,219,266	170,668	7.69%
Total net position	12,920,158	12,520,618	399,540	3.19%
TOTAL LIABILITIES AND NET POSITION	\$ 17,550,619	\$ 17,445,795	\$ 104,824	

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Analysis of Revenues and Expenses

Borrego Water District's Revenues, Expenses and Changes in Net Position 2013/2014:

	2014	2013	Variance	
			\$	%
OPERATING REVENUES				
Water revenue	\$ 2,640,032	\$ 2,365,553	\$ 274,479	11.60%
Sewer service charges	527,383	484,160	43,223	8.93%
Availability charges	210,263	176,209	34,054	19.33%
Golf revenue	1,233	1,469	(236)	-16.07%
Other income	28,608	17,083	11,525	67.46%
Total operating revenues	3,407,519	3,044,474	363,045	11.92%
NONOPERATING REVENUES				
Property taxes	63,950	70,394	(6,444)	-9.15%
Investment income	76	145	(69)	-47.59%
Gain on sale of asset	(44,286)	20,609	(64,895)	100.00%
Total non-operating revenues	19,740	91,148	(71,408)	-78.34%
Total revenues	3,427,259	3,135,622	291,637	9.30%
OPERATING EXPENSES				
Water operations	1,203,270	1,171,561	31,709	2.71%
Sewer operations	297,442	217,420	80,022	36.81%
Golf operations	-	14,564	(14,564)	-100.00%
Depreciation expense	595,899	617,677	(21,778)	-3.53%
General and administrative	734,832	832,967	(98,135)	-11.78%
Total operating expenses	2,831,443	2,854,189	(22,746)	-0.80%
NON OPERATING EXPENSES				
Impairment/loss on disposal of assets	-	369,349	(369,349)	-100.00%
Interest expense	179,784	143,966	35,818	24.88%
Amortization expense	16,492	16,492	-	0.00%
Total non-operating expenses	196,276	529,807	(333,531)	-62.95%
Total expenses	3,027,719	3,383,996	(356,277)	-10.53%
Change in net position	399,540	(248,374)	647,914	-260.86%
TOTAL NET POSITION, BEGINNING	12,520,618	12,860,887	(340,269)	-2.65%
Prior period adjustment	-	(91,895)	-	100.00%
TOTAL NET POSITION, ENDING	\$ 12,920,158	\$ 12,520,618	\$ 399,540	3.19%

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

- Increase in revenue due to rate increases enacted in August 2013.
- Increase in loss on disposal of fixed assets.
- Decrease in the cost of providing water service offset by an increase in the cost of providing sewer services.
- Total non-operating revenues increase due primarily to the increase in water revenue.
- General and Administrative expense were flat when compared to water and sewer operation costs. Decrease in operating costs attributed to a decrease in depreciation expense.
- Increase in interest expense primarily due to accrual of Viking Ranch note payable.

BUDGET HIGHLIGHTS

Fiscal Year 2014 Actual vs. Fiscal Year 2014 Budget

	2014 Actual	2014 Budget	Variance	
			\$	%
REVENUES				
From operations	\$ 3,407,519	\$ 3,364,223	\$ 43,296	1.29%
Nonoperating	19,740	64,388	(44,648)	-69.34%
Total revenue	<u>3,427,259</u>	<u>3,428,611</u>	<u>(1,352)</u>	<u>-0.04%</u>
EXPENSES				
Water operations	1,203,270	1,944,988	(741,718)	-38.13%
Sewer operations	297,442	314,959	(17,517)	-5.56%
Depreciation expense	595,899	-	595,899	100.00%
General and administrative	734,832	521,747	213,085	40.84%
Other non-operating expenses	196,276	219,313	(23,037)	-10.50%
Total expenses	<u>3,027,719</u>	<u>3,001,007</u>	<u>26,712</u>	<u>0.89%</u>
CHANGE IN NET POSITION	<u>\$ 399,540</u>	<u>\$ 427,604</u>	<u>\$ (28,064)</u>	<u>-6.56%</u>

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

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

Borrego Water District's Capital Assets

	2014	2013	Variance	
			\$	%
Land and land improvements	\$ 882,054	\$ 882,054	\$ -	0.00%
Flood control facilities	4,319,604	4,319,604	-	0.00%
Sewer facilities	5,806,137	5,807,526	(1,389)	-0.02%
Water facilities	10,489,701	10,271,334	218,367	2.13%
Pipelines, wells and tanks	151,699	151,699	-	0.00%
General facilities	1,006,881	1,006,881	-	0.00%
Telemetry	46,459	46,459	-	0.00%
Equipment and furniture	265,675	265,675	-	0.00%
Vehicles	495,572	495,572	-	0.00%
Construction in progress	186,213	186,368	(155)	-0.08%
Fallowed water credits	1,868,358	1,908,965	(40,607)	-2.13%
Water rights-ID #4	185,000	185,000	-	0.00%
Total assets	25,703,353	25,527,137	176,216	0.69%
Less accumulated depreciation	(10,998,129)	(10,583,635)	(414,494)	-3.92%
Net capital assets	<u>\$ 14,705,224</u>	<u>\$ 14,943,502</u>	<u>\$ (238,278)</u>	-1.59%

Debt Administration

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

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

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

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

Year Ending June 30,	Principal	Interest	Totals
2015	\$ 135,000	\$ 120,713	\$ 255,713
2016	140,000	114,525	254,525
2017	145,000	108,112	253,112
2018	150,000	101,475	251,475
2019	160,000	94,500	254,500
2020-2024	905,000	356,288	1,261,288
2025-2029	1,115,000	129,712	1,244,712
Totals	<u>\$ 2,750,000</u>	<u>\$ 1,025,325</u>	<u>\$ 3,775,325</u>

ECONOMIC FACTORS AND FUTURE YEAR'S BUDGET AND RATES

The District's Board of Directors and management considered many factors when setting the fiscal year 2014/2015 budget, user fees and charges. The District attempts to balance revenues with operating expenses that have increased due to inflationary factors, such as cost of living, cost of water, and insurance coverage.

These indicators were taken into consideration when adopting the District's budget for the fiscal year 2014/2015. The budget has been structured to contain costs, but at the same time, continue the District's philosophy of providing the highest levels of service and continue efforts towards securing a sustainable water supply for the community.

Fiscal Year 2014 Actual vs. Fiscal Year 2015 Budget

	2015 Budget	2014 Actual	Variance	
			\$	%
REVENUES				
Operating Revenue	\$ 3,491,250	\$ 3,407,519	\$ 83,731	2.46%
Nonoperating	64,625	19,740	44,885	227.38%
Total revenue	<u>3,555,875</u>	<u>3,427,259</u>	<u>128,616</u>	<u>3.75%</u>
EXPENSES				
Operating expenses	2,336,442	2,235,544	100,898	4.51%
Depreciation	-	595,899	(595,899)	-100.00%
Other non operating expenses	688,000	196,276	491,724	250.53%
Total expenses	<u>3,024,442</u>	<u>3,027,719</u>	<u>(3,277)</u>	<u>-0.11%</u>
CHANGE IN NET POSITION	<u>\$ 531,433</u>	<u>\$ 399,540</u>	<u>\$ 131,893</u>	<u>-33.01%</u>

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

ECONOMIC FACTORS AND FUTURE YEAR'S BUDGET AND RATES (CONTINUED)

- 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 Jerry Rolwing, General Manager or Kim Pitman, Fiscal Officer at the Borrego Water District, 806 Palm Canyon Drive, Borrego Springs, California, 92004 or by telephone at (760) 767-5806.

Borrego Water District

**BORREGO WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,947,809	\$ 1,434,126
Restricted cash and cash equivalents:		
Customer deposits	21,244	35,666
Accounts receivable:		
Water and sewer, net of allowance	361,514	498,117
Property taxes	-	372
Availability charges	-	51,934
Other receivables	2,272	4,541
Inventory	140,713	130,337
Prepaid expenses	29,138	43,008
Total current assets	2,502,690	2,198,101
Noncurrent assets:		
Water and sewer charges receivable	-	35,182
Debt issuance costs, net of amortization	92,454	98,942
Debt refunding costs, net of amortization	132,554	142,559
Fiduciary fund:		
Restricted cash and cash equivalents	117,697	27,509
Capital assets:		
Land	882,054	882,054
Construction in progress	186,213	186,368
Fallowed water credits	1,868,358	1,908,965
Water rights - ID 4	185,000	185,000
Capital assets being depreciated, net	11,583,599	11,781,115
Total noncurrent assets	15,047,929	15,247,694
TOTAL ASSETS	\$ 17,550,619	\$ 17,445,795
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 142,918	\$ 79,649
Accrued interest payable	77,285	56,310
Short-term compensated absences	57,790	50,336
Customer deposits	21,244	35,666
Current portion of note payable	135,000	75,909
Total current liabilities	434,237	297,870
Noncurrent liabilities:		
Compensated absences	38,527	33,557
Community Facilities District 2007-1 Bondholders	117,697	27,509
Notes payable, net of current portion	4,040,000	4,566,241
Total noncurrent liabilities	4,196,224	4,627,307
Total liabilities	4,630,461	4,925,177
Net position		
Net investment in capital assets	10,530,224	10,301,352
Unrestricted	2,389,934	2,219,266
Total net position	12,920,158	12,520,618
TOTAL LIABILITIES AND NET POSITION	\$ 17,550,619	\$ 17,445,795

The notes to the financial statements are an integral part of the statement.

BORREGO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Water revenue	\$ 2,640,032	\$ 2,365,553
Sewer service charges	527,383	484,160
Availability charges	210,263	176,209
Golf revenue	1,233	1,469
Other income	28,608	17,083
Total operating revenues	<u>3,407,519</u>	<u>3,044,474</u>
OPERATING EXPENSES		
Water operations	1,203,270	1,171,561
Sewer operations	297,442	217,420
Golf operations	-	14,564
Depreciation	595,899	617,677
General and administrative	734,832	832,967
Total operating expenses	<u>2,831,443</u>	<u>2,854,189</u>
Income from operations	576,076	190,285
NON-OPERATING REVENUES (EXPENSES)		
Property taxes	63,950	70,394
Investment income	76	145
Gain (loss) on disposal of assets	(44,286)	20,609
Interest expense	(179,784)	(143,966)
Amortization expense	(16,492)	(16,492)
Total non-operating revenues (expenses)	<u>(176,536)</u>	<u>(69,310)</u>
INCOME BEFORE IMPAIRMENTS	399,540	120,975
IMPAIRMENT OF CAPITAL ASSETS	<u>-</u>	<u>(369,349)</u>
CHANGE IN NET POSITION	399,540	(248,374)
NET POSITION, BEGINNING	12,520,618	12,860,887
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(91,895)</u>
NET POSITION, ENDING	<u>\$ 12,920,158</u>	<u>\$ 12,520,618</u>

The notes to the financial statements are an integral part of the statement.

**BORREGO WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from water and sewer customers	\$ 3,339,200	\$ 2,770,614
Receipts from availability charges	262,197	202,345
Receipts from golf course	3,502	1,469
Payments to suppliers and employees	(1,435,947)	(1,438,412)
Payments for general and administration	(734,832)	(906,342)
Payments for golf course	-	(14,564)
Other receipts	28,608	29,753
Net cash provided by operating activities	<u>1,462,728</u>	<u>644,863</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Taxes received	64,323	73,500
Acquisition and construction of capital assets	(531,193)	(205,998)
Proceeds from sale of assets	129,286	603,524
Proceeds from debt issuance	-	(136,071)
Gain on disposal of assets	-	(20,609)
Principal paid on long-term debt	(467,150)	(77,158)
Change in long-term debt valuation	-	(160,074)
Interest payments on long-term debt	(158,809)	(151,851)
Community facilities district 2007-1 receipts and payments	90,188	(90,325)
Net cash provided by investing activities	<u>(873,355)</u>	<u>(165,062)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	76	145
Net cash provided from financing activities	<u>76</u>	<u>145</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	589,449	479,946
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,497,301</u>	<u>1,017,355</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,086,750</u>	<u>\$ 1,497,301</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES		
Income (loss) from operations	\$ 576,076	\$ 190,285
Adjustments to reconcile change in income from operations to net cash provided by operating activities:		
Depreciation	595,899	617,677
(Increase) decrease in accounts receivable	223,719	(82,894)
(Increase) decrease in other receivables	2,269	(38,806)
(Increase) decrease in inventories	(10,376)	2,402
(Increase) decrease in prepaid expenses	13,870	(1,790)
Increase (decrease) in accounts payable	63,269	3,329
Increase (decrease) in customer deposits	(14,422)	8,095
Increase (decrease) in short-term compensated absences	12,424	(53,435)
Net cash provided by operating activities	<u>\$ 1,462,728</u>	<u>\$ 644,863</u>
RECONCILIATION TO BALANCE SHEET		
Cash	\$ 1,947,809	\$ 1,434,126
Restricted: Cash and Cash Equivalents	138,941	63,175
Net reconciliation to balance sheet	<u>\$ 2,086,750</u>	<u>\$ 1,497,301</u>

The notes to the financial statements are an integral part of the statement.

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

A. Summary of significant accounting policies

Borrego Water District (District) accounts for its financial transactions in accordance with the policies and procedures of the Irrigation District Law, now Division 11 of the California State Water Code. The accounting policies of the District conform to accounting principles generally accepted in the United States of American (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criterion for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14. "The Financial Reporting Entity," as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units", include whether:

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

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

2. Basis of accounting

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

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

3. Financial reporting

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

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

A. Summary of significant accounting policies (continued)

3. Financial reporting (continued)

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

GASB No. 34 and subsequent GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses, and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

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

The District did not have any deferred inflows or outflows of resources at June 30, 2014. The adoption of this pronouncement resulted in a retroactive change in the term "net assets" being changed to "net position" throughout the financial statements.

4. Assets, liabilities, and equity

a. Deposits and investments

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

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

A. Summary of significant accounting policies (continued)

4. Assets, liabilities, and equity (continued)

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

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

b. Allowance for doubtful accounts:

An allowance for doubtful accounts is provided based on anticipated collectability of the outstanding utility receivables and other receivables at year-end. At fiscal year ended June 30, 2014 and 2013, management has estimated an allowance for doubtful accounts for availability charges at \$0 and \$665,171, respectively. Management estimates all other receivables at June 30, 2014 and 2013, to be collectible.

c. Stores inventories and prepaid expenditures

Inventories are recorded using the purchase method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period.

d. Capital assets

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

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

<u>Asset class</u>	<u>Estimated useful lives</u>
Buildings	10-50
Water systems	10-50
Improvements of sites	7-25
Equipment	5-10

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

A. Summary of significant accounting policies (continued)

4. Assets, liabilities, and equity (continued)

e. Compensated absences

Accumulated unpaid employee vacation benefits and sick leave are recognized as accrued payroll liabilities in the Statement of Net Position. As of June 30, 2014 and 2013, the District had \$96,317 and \$83,893, respectively, of accrued vacation and sick leave.

f. Deferred revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

g. Interfund activity

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

h. Property taxes

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

i. Use of estimates

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

B. Compliance and accountability

1. Finance-related legal and contractual provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation	Action taken
None reported	Not applicable

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

B. Compliance and accountability (Continued)

2. Deficit fund balance or fund net position of individual funds

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

<u>Fund name</u>	<u>Deficit amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Cash and cash equivalents

The summary of cash and cash equivalents is as follows at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cash on hand and in banks:		
Restricted	\$ 21,244	\$ 35,666
Unrestricted	1,947,809	\$ 1,434,126
Fiduciary funds:		
Cash on hand and in banks	117,697	27,509
Total cash and cash equivalents	<u>\$ 2,086,750</u>	<u>\$ 1,497,301</u>

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized costs of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The summary which presents the amount of the District's deposits which are fully insured or collateralized with securities held by the District or its agent in the District's name (Category One), those deposits which are collateralized with securities held by the pledging financial institution's trust department, or agent in the District's name (Category Two), and those deposits which are not collateralized or are collateralized with securities held by the pledging financial institution, or its trust department, or agent, but not in the District's name (Category Three), is as follows at June 30, 2014 and 2013:

2014					
	<u>Category One</u>	<u>Category Two</u>	<u>Category Three</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Deposits with Financial Institutions	<u>\$ 1,969,053</u>	<u>\$ 117,697</u>	<u>\$ -</u>	<u>\$ 2,086,750</u>	<u>\$ 2,086,750</u>

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

C. Cash and cash equivalents (Continued)

2013					
	Category One	Category Two	Category Three	Total Bank Balance	Carrying Amount
Deposits with Financial Institutions	\$ 1,469,610	\$ 27,509	\$ -	\$ 1,497,119	\$ 1,497,119

D. Capital assets

A schedule of changes in capital assets and accumulated depreciation for the fiscal year ended June 30, 2014, is shown as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 882,054	\$ -	\$ -	\$ 882,054
Construction in progress	186,368	4,435	(4,590)	186,213
Fallowed water credits	1,908,965	-	(40,607)	1,868,358
Water rights - ID 4	185,000	-	-	185,000
Total capital assets, not being depreciated	3,162,387	4,435	(45,197)	3,121,625
Capital assets, being depreciated:				
Flood control facilities	4,319,604	-	-	4,319,604
Sewer facilities	5,807,526	51,614	(53,003)	5,806,137
Water facilities	10,271,334	475,144	(256,777)	10,489,701
Pipelines, wells, and tanks	151,699	-	-	151,699
General facilities	1,006,881	-	-	1,006,881
Telemetry system	46,459	-	-	46,459
Equipment and furniture	265,675	-	-	265,675
Vehicles	495,572	-	-	495,572
Total capital assets, being depreciated	22,364,750	526,758	(309,780)	22,581,728
Less accumulated depreciation	(10,583,635)	(595,899)	181,405	(10,998,129)
Total capital assets, being depreciated, net	11,781,115	(69,141)	(128,375)	11,583,599
Capital assets, net of depreciation	\$ 14,943,502	\$ (64,706)	\$ (173,572)	\$ 14,705,224

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

D. Capital assets (continued)

Changes in capital assets for the fiscal year ended June 30, 2013, were as follows:

	Balance June 30, 2012*	Additions	Deletions	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 992,229	\$ -	\$ (110,175)	\$ 882,054
Construction in progress	181,778	4,590	-	186,368
Allowed water credits	2,278,314	-	(369,349)	1,908,965
Water rights - ID 4	185,000	-	-	185,000
Total capital assets, not being depreciated	<u>3,637,321</u>	<u>4,590</u>	<u>(479,524)</u>	<u>3,162,387</u>
Capital assets, being depreciated:				
Flood control facilities	4,319,604	-	-	4,319,604
Sewer facilities	5,780,431	52,868	(25,773)	5,807,526
Water facilities	10,617,816	133,040	(479,522)	10,271,334
Pipelines, wells, and tanks	151,699	-	-	151,699
General facilities	1,009,060	-	(2,179)	1,006,881
Telemetry system	46,459	-	-	46,459
Equipment and furniture	294,674	-	(28,999)	265,675
Vehicles	480,072	15,500	-	495,572
Total capital assets, being depreciated	<u>22,699,815</u>	<u>201,408</u>	<u>(536,473)</u>	<u>22,364,750</u>
Less accumulated depreciation	(10,388,852)	(607,256)	412,473	(10,583,635)
Total capital assets, being depreciated, net	<u>12,310,963</u>	<u>(405,848)</u>	<u>(124,000)</u>	<u>11,781,115</u>
Capital assets, net of depreciation	<u>\$ 15,948,284</u>	<u>\$ (401,258)</u>	<u>\$ (603,524)</u>	<u>\$ 14,943,502</u>

* Beginning capital assets have been restated. See prior period adjustment note.

E. Long-term obligations

1. Long-term obligation activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the fiscal year ended June 30, 2014, are as follows:

	Balance at June 30, 2013	Additions	Retirements	Balance at June 30, 2014	Amount due within one year
Refunding Installment					
Purchase	\$ 2,775,000	\$ -	\$ 25,000	\$ 2,750,000	\$ 135,000
Viking Ranch Note	1,494,000	-	69,000	1,425,000	-
Rams Hill Note Payable	373,150	-	373,150	-	-
Total long-term debt	<u>\$ 4,642,150</u>	<u>\$ -</u>	<u>\$ 467,150</u>	<u>\$ 4,175,000</u>	<u>\$ 135,000</u>

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

E. Long-term obligations (continued)

2. Refunding Installment Purchase

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

The bonds are payable in annual principal installments of \$25,000 to \$245,000 on October 1 of each year beginning 2013 through 2028. Interest is payable semi-annually on April 1 and October 1 at an interest rate of 4.50% per annum. The installment payments are a special obligation of the District payable solely from revenues of Improvement District No. 4.

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

Year Ending June 30,	Principal	Interest	Totals
2015	\$ 135,000	\$ 120,713	\$ 255,713
2016	140,000	114,525	254,525
2017	145,000	108,112	253,112
2018	150,000	101,475	251,475
2019	160,000	94,500	254,500
2020-2024	905,000	356,288	1,261,288
2025-2029	1,115,000	129,712	1,244,712
Totals	<u>\$ 2,750,000</u>	<u>\$ 1,025,325</u>	<u>\$ 3,775,325</u>

3. Viking Ranch Note

On July 8, 2011, the District and Viking Ranch amended an agreement that had been originally signed October 22, 2010. The amended agreement called for Viking Ranch to sell to the District Parcel 2 and in the future Viking Ranch will make a charitable donation of Parcel 1 to the District. The amended agreement also calls for Viking Ranch to sell to the District 312.5 Agricultural-1 Water Credits. For both Parcel 2 and the 312.5 Agricultural-1 Water Credits, the District will provide to Viking Ranch a \$1.5 Million Note at 4.00% interest per annum, with \$6,000 due upon execution of the note, \$69,000 due upon transference of properties, and the remaining \$1.425 Million due in quarterly interest only payments for the first 5 years, at which that time, \$150,000 in principal will be due. The remaining balance of \$1.275 Million will be paid over the following 25 years with quarterly payments of \$20,229. On August 22, 2013 the District and Viking Ranch finalized the agreement resulting in Viking Ranch transferring Parcel 2 to the District at which time the District paid Viking Ranch \$69,000. Accrued interest for the year ended June 30, 2014 was \$46,067 of which \$0 was paid.

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

E. Long-term obligations (continued)

3. Viking Ranch Note (continued)

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

Year Ending June 30,	Principal	Interest	Totals
2015	\$ -	\$ -	\$ -
2016	-	-	-
2017	-	-	-
2018	-	270,750	270,750
2019	172,662	52,275	224,937
2020-2024	169,667	234,908	404,575
2025-2029	207,024	197,551	404,575
2030-2034	252,608	151,967	404,575
2035-2039	308,231	96,344	404,575
2040-2044	314,808	29,087	343,895
Totals	<u>\$ 1,425,000</u>	<u>\$ 1,032,882</u>	<u>\$ 2,457,882</u>

4. Rams Hill Note Payable

In July 2009 the District entered into an agreement to purchase a well and land from Rams Hill (formerly known as Montesoro). For consideration the District paid an initial amount of \$400,000 and issued a note that calls for ten (10) annual payments of \$70,000 at 5.00% interest per annum, commencing on July 1, 2010.

Effective February 13, 2013, the District and Rams Hill agreed to settle outstanding claims and establish long-term cooperation for delivery of water to Rams Hill. The settlement is as follows:

	Due to District	Due to Rams Hill
Past Due Availability Fees	\$ -	\$ 50,424
Note payable due under Escalator Clause	372,963	-
Current Year Availability Fees	-	25,369
Purchase of ID1-1 & ID1-2 Wells	-	106,436
Closing Costs	-	1,792
Cash Settlement	-	188,942
	<u>\$ 372,963</u>	<u>\$ 372,963</u>

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

F. Operating leases

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

Year ending June 30,	Lease payments
2015	\$ 15,439
2016	1,651
2017	1,651
2018	1
2019	1
2020-2024	5
2025-2029	5
2029-2031	1
Total future minimum lease payments	\$ 18,754

The District will receive no sublease rental revenues nor pay any contingent rentals associated with these leases. Rent expense for the fiscal years ended June 30, 2014 and 2013, was \$15,439 and \$18,046, respectively.

G. Joint ventures (joint powers agreements)

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

California Water Agencies Joint Powers Insurance Authority (JPIA)

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

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

H. Employee retirement systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Classified employees are members of the California Public Employees Retirement System (CalPERS).

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

H. Employee retirement systems (continued)

Plan description (continued)

PERS:

Plan description

The District contributes to the Miscellaneous 3.0% at 60 Risk Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. CalPERS provides a stand-alone financial report. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

According to the most recently available Actuarial Valuation Report for the year ended June 30, 2012, the District's total plan assets are \$1,348,241, the total actuarial present value of accumulated plan benefits is \$1,583,273, and the plan is 63.7% funded.

Copies of the CalPERS' annual financial reports may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814 and www.calpers.ca.gov.

Funding policy

Participants are required to contribute 8% of their annual covered salary. The District makes some of the contributions required of District employees on their behalf and for their account. Currently the District is paying the first 4% leaving the remaining 4% to be paid by the employees. As of July 16, 2013, the District pays 3% leaving the remaining 5% to be paid by employees. The District makes the contributions required of the District's employees on their behalf and for their account. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate for the fiscal year ended June 30, 2014, was 23.434%. The contribution requirements of the plan members are established by state statute. The District contributions to CalPERS for the fiscal years ending June 30, 2014, 2013 and 2012, were \$129,138, \$137,511 and \$142,009, respectively, and equal 100% of the required contributions for each year.

I. Segment information

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

Summary financial information for Improvement District Number 4 is presented in the supplementary information.

J. Subsequent event

The District's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through August 26, 2014, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

BORREGO WATER DISTRICT
SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2014

**BORREGO WATER DISTRICT
ORGANIZATION
JUNE 30, 2014**

The Board of Directors for the fiscal year ended June 30, 2014, was comprised of the following members:

Name	Office	Term	Term expires
Beth Hart	President	4 Years	December 4, 2014
Lyle Brecht	Vice President	4 Years	December 4, 2014
Marshal Brecht	Treasurer/Secretary	4 Years	December 4, 2014
Lee Estep	Director	4 Years	December 2, 2016
Ray Delahay	Director	4 Years	December 2, 2016

Administration

Name	Position
Jerry Rolwing	General Manager
Kim Pitman	Administration Manager

**BORREGO WATER DISTRICT
ASSESSED VALUATION
JUNE 30, 2014**

The assessed valuation of the Borrego Water District at June 30, 2014, is as follows:

Assessed valuation

Secured property	<u>\$ 341,378,673</u>
Total assessed valuation	<u><u>\$ 341,378,673</u></u>

**BORREGO WATER DISTRICT
IMPROVEMENT DISTRICT NUMBER 4
CONDENSED STATEMENT OF NET POSITION
JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS		
Current assets	\$ 2,230,997	\$ 1,514,780
Capital assets, net of depreciation	2,868,877	3,009,992
Other assets	225,008	241,501
TOTAL ASSETS	\$ 5,324,882	\$ 4,766,273
 LIABILITIES AND NET POSITION		
Current liabilities	\$ 192,882	\$ 134,371
Long-term liabilities	2,750,000	2,775,000
Total liabilities	2,942,882	2,909,371
 NET POSITION		
Net investment in capital assets	118,877	234,992
Unrestricted	2,263,123	1,621,910
Total net position	2,382,000	1,856,902
TOTAL LIABILITIES AND NET POSITION	\$ 5,324,882	\$ 4,766,273

**BORREGO WATER DISTRICT
IMPROVEMENT DISTRICT NUMBER 4
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
OPERATING REVENUES		
Water revenue	\$ 1,854,854	\$ 1,661,701
Other income	102,627	90,848
Total operating revenues	1,957,481	1,752,549
OPERATING EXPENSES		
Water operations	729,732	663,289
Depreciation	168,649	169,525
General and administrative	431,613	535,829
Total operating expenses	1,329,994	1,368,643
Gain from operations	627,487	383,906
NON-OPERATING REVENUES (EXPENSES)		
Property taxes	38,370	41,919
Investment income	46	83
Grant income	-	-
Gain (loss) on disposal of assets	-	-
Interest expense	(124,313)	(124,875)
Amortization expense	(16,492)	(16,492)
Total non-operating revenues (expenses)	(102,389)	(99,365)
CHANGE IN NET POSITION	525,098	284,541
NET POSITION, BEGINNING	1,856,902	1,748,158
PRIOR PERIOD ADJUSTMENT	-	(175,797)
NET POSITION, ENDING	\$ 2,382,000	\$ 1,856,902

**BORREGO WATER DISTRICT
IMPROVEMENT DISTRICT NUMBER 4
CONDENSED STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 904,588	\$ 461,251
NET CASH (USED IN) FINANCING ACTIVITIES	(110,443)	(159,251)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>46</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	794,191	302,000
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,170,566</u>	<u>868,566</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 1,964,757</u></u>	<u><u>\$ 1,170,566</u></u>

BORREGO WATER DISTRICT
OTHER REPORTS OF INDEPENDENT AUDITORS SECTION
JUNE 30, 2014



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
CEO & Managing Partner

Roy T. Hosaka, CPA
Retired

James C. Nagel, CPA
Retired

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Borrego Water District
Borrego Springs, California

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Minimum Auditing requirements for California Special Districts*, the financial statements of Borrego Water District, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Borrego Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Borrego Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Borrego Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Borrego Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hosaka, Rotherham & Company

San Diego, California
August 26, 2014

BORREGO WATER DISTRICT
FINDINGS AND RECOMMENDATIONS SECTION
JUNE 30, 2014

**BORREGO WATER DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

A. Summary of auditor's results

1. Financial statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal awards

Internal control over major programs:

One or more material weaknesses identified? Yes N/A No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes N/A None Reported

Type of auditors' report issued on compliance for major programs: N/A

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? Yes N/A No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

The District did not have over \$500,000 in Federal Expenditures.

Dollar threshold used to distinguish between type A and type B programs: N/A

Auditee qualified as low-risk auditee? Yes N/A No

B. Financial statement findings

None

C. Federal award findings and questioned costs

None

**BORREGO WATER DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2014**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None	N/A	N/A