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BORREGO WATER DISTRICT
ANNUAL FINANCIAL
REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2015

BORREGO WATER DISTRICT

INTRODUCTORY SECTION

JUNE 30, 2015

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BORREGO WATER DISTRICT

September 24, 2015

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, 2015 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, 2015 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, 2015 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, and flood control and gnat abatement for areas in the Borrego Springs community. Borrego Springs is an unincorporated community of approximately 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 over 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. 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 wilderness area within the State of California. An economic study performed for the Anza-Borrego Foundation

(ABF) estimates the net regional revenue generated by visitation to the Park at \$40 million annually (BBC Consulting, 2012).

Infrastructure

The District has 10 municipal production wells connected to 90 miles of distribution lines to serve its 2,125 residential, commercial, institutional, and irrigation customers. The District also provides sewer and wastewater treatment services to 830 customers located primarily in the town center, Club Circle and Rams Hill development. The estimated replacement cost value of the District's water, sewer and wastewater treatment infrastructure is approximately \$62,500,000.

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; that management practices and controls are in place for accountability; adopting the annual budget; approving personnel policies and organizational structure; hiring the District's General Manager; and hiring other advisors to the board, such as the District's legal counsel, financial and other advisors, as required. The General Manager is responsible for carrying out the policies and ordinances approved by the District board, for overseeing the day-to-day operations of the District, and for meeting the financial objectives set forth in the annual budget approved by the board.

Groundwater Supply, Usage & Availability

The Borrego Valley Groundwater Basin (BVGB: "the Basin") as defined by the US Geological Survey (USGS) is made up of three aquifers: upper, middle and lower aquifers, each with different physical characteristics. These three aquifers, Pleistocene (2.5 million years ago) to Holocene (11,700 years ago) era water deposits, are the community's sole source of water. Historically, the upper aquifer has been the principle source of groundwater in Borrego Valley and yields as much as 2,000 gallons per minute for some wells.

One hundred years ago 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. Agricultural development began primarily after 1945 and continues today. Annual agricultural irrigation, golf course irrigation, and residential, institutional, and commercial uses require about four to five times more water than is available through average annual natural recharge of the Basin.

Of the current average annual withdrawals from the Basin, agricultural irrigation in the Valley accounts for about 14,000 AFY (approximately 70%) of the average annual uses, recreational uses (golf courses) account for about 3,000 AFY (approximately 20%) of the average annual uses and residential/commercial uses account for about 2,000 AFY (approximately 10%) of the total annual uses. The natural net replenishment (recharge) of the Basin of 5,700 AFY annually is based on 66 years of historic data. The actual annual natural net recharge can fluctuate in the arid climate from less than 1,000 AFY in dry years to more than 25,000 AFY in exceptionally wet years (USGS, 2015).

The current rate of groundwater pumping produces an average annual Basin storage change (overdraft) of about 13,300 acre-feet (AF) of water per year based on current withdrawal rates and an estimated average annual net recharge rate of approximately 5,700 acre-feet per year (AFY). 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, institutional, and residential activity is primarily located.

Groundwater-level declines of more than 100 feet in some parts of the groundwater basin have been observed. Anthropogenic activities have resulted in an increase in pumping lifts, reduced well efficiency, dry wells, changes in water quality, loss of natural groundwater discharge, and changes to the desert ecosystems of the Park. Today, water levels in the Basin are declining on average about 2.7 feet a year. However, if the present rate of withdrawals continues, water levels are projected to drop at an ever-faster rate 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 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. Although the District adopted a groundwater management plan (GWMP) under Assembly Bill 3030 (AB 3030) in 2002, this plan was never fully implemented and contained no timelines, defensible reduction methods, or funding sources necessary to implement a plan to adequately address the overdraft.

In September 2014, the California legislature passed and the governor signed the Sustainable Groundwater Management Act (SGMA; "the Act") that replaces AB 3030. The Act gives Groundwater Sustainability Agencies (GSA) the authority to limit extractions, impose fees and penalties, and require metering and water quality monitoring on all Basin pumpers. Before the GSA can act, it must adopt a Groundwater Sustainability Plan (GSP) that produces basin sustainability in no more than twenty (20) years from 2020 for medium California Statewide Groundwater Monitoring (CASGEM) basins in critical overdraft (the likely designation of the BVGB). Under the legislation, the District and San Diego County ("the County") are the only two public agencies eligible to become GSAs for the BVGB, as defined by the 2015 USGS study and by the California Department of Water Resources (DWR) 1975 and 1980 Bulletin 118 (DWR's 2003 Bulletin 118 expanded the BVGB to include Imperial County).

During this year, the District continued its participation as a member of the Borrego Water Coalition (BWC; "the Coalition"). The Coalition has submitted a set of policy recommendations to the District and to the County for consideration in a plan to address the overdraft of the Basin and that meets the criteria established by the SGMA for managing the Basin in a sustainable manner. The Coalition comprises local leaders from the Chamber of Commerce, agriculture, the District, education, golf, lodging, State Park and recreation. The Coalition members represent major pumpers and water users of the Basin who collectively account for approximately eighty percent (80%) of the annual withdrawals from 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.

Response to California's Drought

Presently, California has approximately only one year of reservoir storage left state-wide when normally it has three-years. Also, allocations of Colorado River water and State Water Project water have been drastically curtailed across the state. This has created severe stress on groundwater resources in those parts of the state that traditionally rely on imported water sources. Because the Borrego Valley relies solely on the Borrego Valley Groundwater Basin for its municipal, recreational, and farming irrigation uses, the California drought has produced no physical impairment of water supply for the District and is not expected to do so in the near future.

In the spring of 2015, the governor issued Executive Order B-29-15 (EO) requiring an emergency mandatory 25% reduction in municipal water use. In response to the EO, the District enacted policies designed to achieve the mandatory 25% reductions in District water use required by the EO without producing a deleterious impact to the District's annual water revenues necessary for meeting its debt coverage covenants and cash flow improvements to become credit worthy again for additional debt in the near future.

Since 2011 the District has spent approximately \$1,218,000 to fallow approximately 120 acres of farmland growing citrus, resulting in a reduction in annual water use of approximately 600 acre-feet per year (AFY) or a

30% reduction of groundwater withdrawals from the Basin against municipal usage of approximately 2,000 AFY.

Since June-November 2013, the District's residential customers produced an approximately twelve percent (12%) reduction in water use for the same period in 2014. This usage reduction was primarily in response to the District's water commodity rate increases (water fee, power fee & groundwater management fee).

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

Uncertainty over the County's flood control regulations and uncertainty over long-term water supply may be slowing new development in the Borrego Valley ("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 \$6.5 million 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 new projects identified by its capital improvement program (CIP) and has deferred major repair and replacement (R&R) projects until its credit is excellent again in order to obtain the best financing terms.

Long-Term Financial Planning

The District's present Board of Directors is aware of the need to restore the District's financial stability and to improve its creditworthiness to borrow. Through a coordinated strategic process, the Board has established a series of policies and plans to effectively meet the District's anticipated future revenue needs. The principles the District has adopted for returning to revenue sufficiency include: (a) the active management and projection of monthly cash flow during the year; (b) holding operating and maintenance (O&M) expenditures to the annual budget; (c) minimal increases in salaries and benefits for employees; (d) refinancing of existing debt obligations where such refinancing would produce a material reduction in future long term cash obligations; (e) deferring large infrastructure repair and replacement (R&R) capital expenditures until the District is able to borrow again in the public bond markets; and (f) implementing annual water and sewer rate increases to increase cash flow and to accumulate cash reserves.

The primary driver for the long-term financial viability of the District, as well as the economy of the Valley is the necessity of resolving the overdraft of the Basin (see section on Groundwater Supply, Usage & Availability above). In order to accomplish this objective, the District needs to regain its good credit standing with the bond markets in order to accommodate raising new debt. Presently, the District Board believes the District may be able to regain its good credit rating (defined as being able to borrow up to \$6 million of new debt in the public bond markets) around FY 2018 - FY 2020.

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). 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.

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, 2015



INDEPENDENT AUDITORS' REPORT

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 year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Borrego Water District's basic 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 Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2015, 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.

INDEPENDENT AUDITORS' REPORT
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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 10, and the schedules of proportionate share of the net pension liability and plan contributions on pages 28 and 29, 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 Information

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

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as listed in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2015, 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
September 14, 2015

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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, 2015. 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, 2015, the following events impacted, or have the potential to impact, the finances of the District:

- On December 18, 2014, the District accepted the donation of 22.57 acres of land with a value of \$124,124 in order to provide a portion of land for the Groundwater Management Flood Basin.
- On May 22, 2015, the District entered into a loan agreement with Compass Bank in the amount of \$1,125,000 in order to refinance the loan agreement with Viking Ranch. The terms of the agreement reduced the payback period from 20 years to 10 years and contained an increase in the interest rate from 4.00% to 4.95%, resulting in an interest savings of approximately \$723,000. Additionally, due to the prepayment clause in the Viking Range agreement, the debt was reduced by \$300,000.
- On May 27, 2015, the District's Board approved a budget for fiscal year 2016 that included rate increases for fiscal year 2016 of 5.00% for sewer rates; 19.00% for water base rates; and 5.00% for water commodity rates over the FY 2015 rates in effect. The new rates took effect July 1, 2015 and are reflected initially in customers' August billings.
- On April 13, 2015, California's 4th District Court ruled that the city of San Juan Capistrano failed to meet the statutory requirements of Proposition 218 for its tiered rates to encourage water conservation. The court said that Capistrano must calculate the incremental cost of providing water at the level of use represented by each tier. From August 2010 through June 2015, the District implemented tier 2 rates to encourage conservation. Since these tier 2 revenues could potentially also be subject to the Capistrano decision, the District has: (1) suspended its tier 2 rates as of July 2015; (2) established a reserve for doubtful tier 2 revenues; and (3) developed a plan for Proposition 218 approved new tiered rates during FY 2016. The reserve represents \$172,195 in tier 2 revenues collected from 539 customers between 2010-2015. The potential per customer liability ranges from less than \$100 to approximately \$3,000. Despite potential legislative action to reverse this court decision since tiered rates are employed by nearly two-thirds of water districts in California, the District believes such actions are prudent.
- At June 30, 2015, the District reviewed the value of the water credits in regards to the Viking Ranch land purchase, resulting in an impairment of the water credits of \$494,308.
- Effective June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. GASB Statement No. 68 requires that the District record the Net Pension Liability of its defined benefit pension plan as of the measurement date. The implementation of GASB No. 68 resulted in a prior period adjustment to the beginning net position of \$700,038, and a net pension liability at June 30, 2015 of \$699,055. Additional information is provided in the footnotes and Required Supplementary Information.

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

FINANCIAL HIGHLIGHTS (CONTINUED)

- The income from operations for the fiscal year ended June 30, 2015, was \$673,411 compared with income from operations of \$576,076 for FY 2014.
- Cash and cash equivalents increased to \$2,976,551 at June 30, 2015, from \$2,086,750 at June 30, 2014.
- Capital assets decreased to \$13,689,404 at June 30, 2015, from \$14,705,224 at June 30, 2014.
- The change in net position for the fiscal year ended June 30, 2015, was an increase of \$133,351, before the prior period adjustment, compared to a increase in net position of \$399,450 for FY 2014.

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, 2015. Assets in excess of liabilities (Net Position) were \$12,353,471 and \$12,920,158 as of June 30, 2015 and 2014, 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, 2015 and 2014. 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 \$673,411, is combined with net non-operating revenues and expenses of (\$169,876), capital contributions of \$124,124 and impairment of capital assets of (\$494,308), to arrive at the change of net position of \$133,351. The increase in net position is added to beginning net position of \$12,920,158 and the prior period adjustment of (\$700,038) to arrive at the ending net position of \$12,353,471 as of June 30, 2015.

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 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.

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Analysis of Net Position

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

Borrego Water District's Net Position

	2015	2014	Variance	
			\$	%
ASSETS				
Cash and investments	\$ 2,976,551	\$ 2,086,750	\$ 889,801	42.64%
Capital assets	13,689,404	14,705,224	(1,015,820)	-6.91%
Other assets	650,438	626,091	24,347	3.89%
TOTAL ASSETS	17,316,393	17,418,065	(101,672)	
DEFERRED OUTFLOWS OF RESOURCES				
	261,309	132,554	128,755	97.13%
LIABILITIES				
Current liabilities	687,029	434,237	252,792	58.22%
Noncurrent liabilities	4,377,089	4,196,224	180,865	4.31%
TOTAL LIABILITIES	5,064,118	4,630,461	433,657	9.37%
DEFERRED INFLOWS OF RESOURCES				
	160,113	-	160,113	100.00%
NET POSITION				
Net investment in capital assets	9,949,404	10,530,224	(580,820)	-5.52%
Restricted	-	-	-	0.00%
Unrestricted	2,404,067	2,389,934	14,133	0.59%
TOTAL NET POSITION	\$ 12,353,471	\$ 12,920,158	\$ (566,687)	-4.39%

Analysis of Revenues and Expenses

Borrego Water District's Revenues, Expenses and Changes in Net Position 2014/2015

	2015	2014	Variance	
			\$	%
OPERATING REVENUES				
Water revenue	\$ 2,873,643	\$ 2,640,032	\$ 233,611	8.85%
Sewer service charges	534,828	527,383	7,445	1.41%
Availability charges	245,215	210,263	34,952	16.62%
Golf revenue	541	1,233	(692)	-56.12%
Other income	2,725	28,608	(25,883)	-90.47%
Total operating revenues	3,656,952	3,407,519	249,433	7.32%
NONOPERATING REVENUES				
Property taxes	74,460	63,950	10,510	16.43%
Investment income	81	76	5	6.58%
Loss on disposal of assets	(48,834)	(44,286)	(4,548)	10.27%
Total non-operating revenues	25,707	19,740	5,967	30.23%
Total revenues	3,682,659	3,427,259	255,400	7.45%

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Borrego Water District's Revenues, Expenses and Changes in Net Position 2014/2015 (Continued)

	2015	2014	Variance	
			\$	%
OPERATING EXPENSES				
Water operations	1,277,649	1,203,270	74,379	6.18%
Sewer operations	344,249	297,442	46,807	15.74%
Depreciation expense	593,486	595,899	(2,413)	-0.40%
General and administrative	768,157	734,832	33,325	4.54%
Total operating expenses	2,983,541	2,831,443	152,098	5.37%
NON OPERATING EXPENSES				
Interest expense	179,091	179,784	(693)	-0.39%
Amortization expense	16,492	16,492	-	0.00%
Total non-operating expenses	195,583	196,276	(693)	-0.35%
Total expenses	3,179,124	3,027,719	151,405	5.00%
INCOME BEFORE CONTRIBUTIONS AND IMPAIRMENTS	503,535	399,540	103,995	26.03%
CAPITAL CONTRIBUTIONS	124,124	-	124,124	100.00%
IMPAIRMENT OF CAPITAL ASSETS	(494,308)	-	(494,308)	100.00%
CHANGE IN NET POSITION	133,351	399,540	(266,189)	-66.62%
TOTAL NET POSITION, BEGINNING	12,920,158	12,520,618	399,540	3.19%
PRIOR PERIOD ADJUSTMENT	(700,038)	-	-	100.00%
TOTAL NET POSITION, ENDING	<u>\$ 12,353,471</u>	<u>\$ 12,920,158</u>	<u>\$ (566,687)</u>	-4.39%

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 2014.
- Increase in the cost of providing water and sewer service, primarily due to repairs & maintenance, pumping costs and salaries.
- Total non-operating revenues increase due primarily to the increase in property tax revenue.
- General and Administrative expense increased due primarily to salaries.
- Increase in capital contributions due to the land provided for the Groundwater Management Flood Basin, and an increase in the impairment of water credits due to a valuation adjustment.
- Increase in the prior period adjustment due to implementation of GASB Statement No. 68.

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

BUDGET HIGHLIGHTS

Fiscal Year 2015 Actual vs. Fiscal Year 2015 Budget

	2015 Actual	2015 Budget	Variance	
			\$	%
REVENUES				
From operations	\$ 3,656,952	\$ 3,491,570	\$ 165,382	4.74%
Nonoperating	25,707	64,305	(38,598)	-60.02%
Total revenue	3,682,659	3,555,875	126,784	3.57%
EXPENSES				
Water operations	1,277,649	1,695,181	(417,532)	-24.63%
Sewer operations	344,249	385,548	(41,299)	-10.71%
Depreciation expense	593,486	-	593,486	100.00%
General and administrative	768,157	688,000	80,157	11.65%
Impairment of capital assets	-	-	-	100.00%
Other non-operating expenses	195,583	255,713	(60,130)	-23.51%
Total expenses	3,179,124	3,024,442	154,682	5.11%
Capital Contributions	124,124	-	124,124	100.00%
Impairment of capital assets	(494,308)	-	(494,308)	
CHANGE IN NET POSITION	\$ 133,351	\$ 531,433	\$ (398,082)	-74.91%

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

	2015	2014	Variance	
			\$	%
Land and land improvements	\$ 1,006,178	\$ 882,054	\$ 124,124	14.07%
Flood control facilities	4,319,604	4,319,604	-	0.00%
Sewer facilities	5,817,631	5,806,137	11,494	0.20%
Water facilities	10,606,930	10,489,701	117,229	1.12%
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	562,636	495,572	67,064	13.53%
Construction in progress	271,275	186,213	85,062	45.68%
Fallowed water credits	1,030,650	1,868,358	(837,708)	-44.84%
Water rights-ID #4	185,000	185,000	-	0.00%
Total assets	25,270,618	25,703,353	(432,735)	-1.68%
Less accumulated depreciation	(11,581,214)	(10,998,129)	(583,085)	-5.30%
Net capital assets	\$ 13,689,404	\$ 14,705,224	\$ (1,015,820)	-6.91%

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

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 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.

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

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 140,000	\$ 114,525	\$ 254,525
2017	145,000	108,113	253,113
2018	150,000	101,475	251,475
2019	160,000	94,500	254,500
2020	165,000	87,188	252,188
2021-2025	945,000	314,663	1,259,663
2026-2029	910,000	84,150	994,150
	<u>\$ 2,615,000</u>	<u>\$ 904,614</u>	<u>\$ 3,519,614</u>

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

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 87,999	\$ 55,489	\$ 143,488
2017	93,881	49,607	143,488
2018	98,615	44,873	143,488
2019	103,588	39,900	143,488
2020	108,811	34,676	143,487
2021-2025	632,106	85,330	717,436
Totals	<u>\$ 1,125,000</u>	<u>\$ 309,875</u>	<u>\$ 1,434,875</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.

**BORREGO WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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

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	\$ 3,656,952	\$ (165,702)	-4.53%
Nonoperating	64,625	25,707	38,918	151.39%
Total revenue	<u>3,555,875</u>	<u>3,682,659</u>	<u>(126,784)</u>	<u>-3.44%</u>
EXPENSES				
Operating expenses	2,336,442	2,390,055	(53,613)	-2.24%
Depreciation	-	593,486	(593,486)	-100.00%
Other non operating expenses	688,000	195,583	492,417	251.77%
Total expenses	<u>3,024,442</u>	<u>3,179,124</u>	<u>(154,682)</u>	<u>-4.87%</u>
Capital Contributions	-	124,124	(124,124)	0.00%
Impairment of capital assets	-	(494,308)	494,308	0.00%
CHANGE IN NET POSITION	<u>\$ 531,433</u>	<u>\$ 133,351</u>	<u>\$ 398,082</u>	<u>-298.52%</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.

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, 2015**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 2,830,294
Restricted cash and cash equivalents:	
Customer deposits	22,094
Accounts receivable:	
Water and sewer, net of allowance	351,121
Inventory	123,656
Prepaid expenses	33,695
Total current assets	<u>3,360,860</u>
Noncurrent assets:	
Debt issuance costs, net of amortization	141,966
Fiduciary fund:	
Restricted cash and cash equivalents	124,163
Capital assets:	
Land	1,006,178
Construction in progress	271,275
Fallowed water credits	1,030,650
Water rights - ID 4	185,000
Capital assets being depreciated, net	11,196,301
Total noncurrent assets	<u>13,955,533</u>
TOTAL ASSETS	<u><u>17,316,393</u></u>

DEFERRED OUTFLOWS OF RESOURCES

Debt refunding costs, net of amortization	122,550
Pension related costs	138,759
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u><u>261,309</u></u>

LIABILITIES

Current liabilities:	
Accounts payable	159,891
Accrued expenses	172,195
Accrued interest payable	42,044
Short-term compensated absences	62,806
Customer deposits	22,094
Current portion of note payable	227,999
Total current liabilities	<u>687,029</u>
Noncurrent liabilities:	
Compensated absences	41,870
Community Facilities District 2007-1 Bondholders	124,163
Net pension liability	699,055
Notes payable, net of current portion	3,512,001
Total noncurrent liabilities	<u>4,377,089</u>
TOTAL LIABILITIES	<u><u>5,064,118</u></u>

DEFERRED INFLOWS OF RESOURCES

Pension related costs	<u>160,113</u>
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NET POSITION

Net investment in capital assets	9,949,404
Unrestricted	2,404,067
TOTAL NET POSITION	<u><u>\$ 12,353,471</u></u>

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 YEAR ENDED JUNE 30, 2015**

OPERATING REVENUES	
Water revenue	\$ 2,873,643
Sewer service charges	534,828
Availability charges	245,215
Golf revenue	541
Other income	2,725
Total operating revenues	<u>3,656,952</u>
OPERATING EXPENSES	
Water operations	1,277,649
Sewer operations	344,249
Depreciation	593,486
General and administrative	768,157
Total operating expenses	<u>2,983,541</u>
Income from operations	673,411
NON-OPERATING REVENUES (EXPENSES)	
Property taxes	74,460
Investment income	81
Loss on disposal of assets	(48,834)
Interest expense	(179,091)
Amortization expense	(16,492)
Total non-operating revenues (expenses)	<u>(169,876)</u>
INCOME BEFORE CONTRIBUTIONS AND IMPAIRMENTS	503,535
CAPITAL CONTRIBUTIONS	124,124
IMPAIRMENT OF CAPITAL ASSETS	<u>(494,308)</u>
CHANGE IN NET POSITION	133,351
NET POSITION, BEGINNING	<u>12,920,158</u>
PRIOR PERIOD ADJUSTMENT	<u>(700,038)</u>
NET POSITION, ENDING	<u><u>\$ 12,353,471</u></u>

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

**BORREGO WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from water and sewer customers	\$ 3,418,864
Receipts from availability charges	245,215
Receipts from golf course	541
Payments to suppliers and employees	(1,390,650)
Payments for general and administration	(768,157)
Other receipts	4,997
Net cash provided by operating activities	<u>1,510,810</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Taxes received	74,460
Acquisition and construction of capital assets	(306,618)
Proceeds from sale of assets	9,934
Proceeds from debt issuance	1,125,000
Principal paid on long-term debt	(1,260,000)
Interest payments on long-term debt	(270,332)
Community facilities district 2007-1 receipts and payments	6,466
Net cash used in investing activities	<u>(621,090)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	81
Net cash provided from financing activities	<u>81</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	889,801
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,086,750</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,976,551</u></u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES	
Income from operations	\$ 673,411
Adjustments to reconcile change in income from operations to net cash provided by operating activities:	
Depreciation	593,486
(Increase) decrease in accounts receivable	10,393
(Increase) decrease in other receivables	2,272
(Increase) decrease in inventories	17,057
(Increase) decrease in prepaid expenses	(4,557)
Increase (decrease) in accounts payable	16,973
Increase (decrease) in accrued expenses	172,195
Increase (decrease) in customer deposits	850
Increase (decrease) in short-term compensated absences	8,359
Increase (decrease) in net pension liabilities	20,371
Net cash provided by operating activities	<u><u>\$ 1,510,810</u></u>
RECONCILIATION TO BALANCE SHEET	
Cash	\$ 2,830,294
Restricted: Cash and Cash Equivalents	146,257
Net reconciliation to balance sheet	<u><u>\$ 2,976,551</u></u>

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

**BORREGO WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SUPPLEMENTAL DISCLOSURES

Schedule of non-cash investing and financing activities:

Contributions of water system assets by customers and developers	<u>\$ 124,124</u>
Cash payments for interest	<u>\$ 270,332</u>

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

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

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*, subsequently amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB Statement No. 61), 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 GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34), and subsequently amended by GASB Statement No. 61. This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reporting.

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

A. Summary of significant accounting policies (continued)

3. Financial reporting (continued)

GASB Statement 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 Statement 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 Statement No. 34, and subsequent GASB pronouncements, 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.

4. Implementation of GASB Pronouncements

Effective June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB Statement No. 68), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB Statement No. 71). GASB Statement No. 68 requires that the District record the Net Pension Liability of its defined benefit pension plan as of the measurement date. The implementation of GASB No. 68 resulted in a prior period adjustment to the beginning net position of \$700,038, and a net pension liability at June 30, 2015 of \$699,055. GASB Statement No. 71 relates to amounts that are deferred and amortized at the time GASB Statement No. 68 is first implemented. The implementation of GASB Statement No. 71 resulted in the deferred inflows of \$138,759 at June 30, 2015. Additional information is provided in the footnotes and Required Supplementary Information.

5. 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.

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.

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

A. Summary of significant accounting policies (continued)

5. Assets, liabilities, and equity (continued)

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, 2015, management has not recorded an allowance for doubtful accounts as it estimates all receivables at June 30, 2015 to be collectible.

c. Inventories

Inventories are recorded on the average cost basis.

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:

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

e. Deferred outflows/inflows of resources

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

The deferred charge of debt refunding costs resulted from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. At June 30, 2015, the balance of the debt refunding costs is \$122,550.

The pension plan related costs is the employer contributions paid during the year ended June 30, 2015, which are deferred under GASB Statement No. 68. At June 30, 2015, the deferred employer contribution is \$138,759.

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

A. Summary of significant accounting policies (continued)

5. Assets, liabilities, and equity (continued)

e. Deferred outflows/inflows of resources (continued)

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

The deferred inflows of resources is made up of two components; net difference between projected and actual earnings on pension plan investments in the amount of \$134,716, which is amortized on a straight-line basis over five years, and adjustment due to differences in proportions in the amount of \$25,397, which is amortized over the straight-line basis over the average expected remaining service lives of all members that are provided with benefits. At June 30, 2015, the deferred pension related cost is \$138,759.

f. 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, 2015 and 2014, the District had \$104,676 and \$96,317, respectively, of accrued vacation and sick leave.

g. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. As of June 30, 2015, the following timeframes are used:

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

h. 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.

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

A. Summary of significant accounting policies (continued)

i. Capital contributions

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

6. 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.

7. 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.

8. Reclassifications

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

B. 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, 2015:

Cash on hand and in banks:		
Restricted	\$	22,094
Unrestricted		2,830,294
Fiduciary funds:		
Cash on hand and in banks		124,163
Total cash and cash equivalents	\$	<u>2,976,551</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The District maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The District has not experienced any losses in such accounts. At June 30, 2015 the District had \$2,620,851 in excess of FDIC insured limits.

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

C. Cash and cash equivalents (Continued)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized costs of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. At June 30, 2015 the District had deposited with LAIF \$20,982.

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, 2015:

	Category One	Category Two	Category Three	Total Bank Balance	Carrying Amount
Deposits with Financial Institutions	\$ 2,852,388	\$ 124,163	\$ -	\$ 2,976,551	\$ 2,976,551

D. Capital assets

A schedule of changes in capital assets and accumulated depreciation for the fiscal year ended June 30, 2015, is shown as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 882,054	\$ 124,124	\$ -	\$ 1,006,178
Construction in progress	186,213	89,497	(4,435)	271,275
Fallowed water credits	1,868,358	-	(837,708)	1,030,650
Water rights - ID 4	185,000	-	-	185,000
Total capital assets, not being depreciated	3,121,625	213,621	(842,143)	2,493,103
Capital assets, being depreciated:				
Flood control facilities	4,319,604	-	-	4,319,604
Sewer facilities	5,806,137	32,828	(21,334)	5,817,631
Water facilities	10,489,701	117,229	-	10,606,930
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	67,064	-	562,636
Total capital assets, being depreciated	22,581,728	217,121	(21,334)	22,777,515
Less accumulated depreciation	(10,998,129)	(593,485)	10,400	(11,581,214)
Total capital assets, being depreciated, net	11,583,599	(376,364)	(10,934)	11,196,301
Capital assets, net of depreciation	\$ 14,705,224	\$ (162,743)	\$ (853,077)	\$ 13,689,404

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015, are as follows:

	Balance at June 30, 2014	Additions	Retirements	Balance at June 30, 2015	Amount due within one year
Refunding Installment Purchase	\$ 2,750,000	\$ -	\$ 135,000	\$ 2,615,000	\$ 140,000
Compass Bank Note	-	1,125,000	-	1,125,000	87,999
Viking Ranch Note	1,425,000	-	1,425,000	-	-
Total long-term debt	<u>\$ 4,175,000</u>	<u>\$ 1,125,000</u>	<u>\$ 1,560,000</u>	<u>\$ 3,740,000</u>	<u>\$ 227,999</u>

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:

June 30,	Principal	Interest	Totals
2016	\$ 140,000	\$ 114,525	\$ 254,525
2017	145,000	108,113	253,113
2018	150,000	101,475	251,475
2019	160,000	94,500	254,500
2020	165,000	87,188	252,188
2021-2025	945,000	314,663	1,259,663
2026-2029	910,000	84,150	994,150
	<u>\$ 2,615,000</u>	<u>\$ 904,614</u>	<u>\$ 3,519,614</u>

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

E. Long-term obligations (continued)

3. Compass Bank Note

On May 22, 2015, the District entered into a 10 year promissory note agreement with Compass Bank in the amount of \$1,125,000. Payments of principal and interest of \$35,872, at 4.95% interest per annum, are due quarterly starting September 1, 2015 through June 1, 2025. The note is secured by a pledge and lien on net water revenues from the water enterprise, as defined in the agreement. Accrued interest for the year ended June 30, 2015 was \$9,307.

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

Year Ending June 30,	Principal	Interest	Totals
2016	\$ 87,999	\$ 55,489	\$ 143,488
2017	93,881	49,607	143,488
2018	98,615	44,873	143,488
2019	103,588	39,900	143,488
2020	108,811	34,676	143,487
2021-2025	632,106	85,330	717,436
Totals	<u>\$ 1,125,000</u>	<u>\$ 309,875</u>	<u>\$ 1,434,875</u>

4. 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 time, \$150,000 in principal will be due. Effective May 22, 2015, the note was paid in full through the issuance of the note payable to Compass Bank.

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
2016	\$ 5,150
2017	5,850
2018	4,199
2019	4,199
2020	4,199
Thereafter	348
	<u>\$ 23,945</u>

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, 2015 was \$15,439.

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

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 plan

1. Plan description, benefits provided and employees covered.

The District contributes to the Miscellaneous 3.0% at 60 Risk Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2013 actuarial valuation report. This report is a publically available valuation report that can be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814 and www.calpers.ca.gov under Forms and Publications.

2. Contribution description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the active employee contribution rate is 7.761 percent of annual pay, and the average employer's contribution rate is 20.434 percent of annual payroll. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

Participants are required to contribute 8.00% 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 3.00% leaving the remaining 5.00% to be paid by the 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, 2015, was 21.997%. The contribution requirements of the plan members are established by state statute.

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

H. Employee retirement plan (continued)

3. Actuarial methods and assumptions used to determine total pension liability

For the measurement period ending June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. Both the June 30, 2013 total pension liability and the June 30, 2014 total pension liability were based on the following actuarial methods and assumptions:

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

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

4. Discount rate

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB Statement No. 68 section.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statements No. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed the District's methodology.

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

H. Employee retirement plan (continued)

4. Discount rate (continued)

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

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

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

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

5. Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.50%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate:

	Discount Rate -1.00% 6.50%	Current Discount Rate 7.50%	Discount Rate +1.00% 8.50%
Plan's Net Pension Liability	<u>\$ 1,051,979</u>	<u>\$ 699,055</u>	<u>\$ 406,162</u>

**BORREGO WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

H. Employee retirement plan (continued)

6. Pension plan fiduciary net position

The plan fiduciary net position disclosed in the District's GASB Statement No. 68 accounting valuation report may differ from the plan assets reported in the District's funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in your funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

At June 30, 2015, the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

The District contributions to CalPERS for the fiscal years ending June 30, 2015, 2014 and 2013, were \$138,759, \$129,138, and \$137,511, 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. Prior period adjustment

An adjustment to the District's net position at June 30, 2015 in the amount of \$700,038 was due to the implementation of GASB Statement No. 68.

K. 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 September 14, 2015, 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
REQUIRED SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2015

**BORREGO WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS
JUNE 30, 2015**

	June 30, 2014
Proportion of the net pension liability	0.01123%
Proportionate share of the net pension liability	\$ 699,055
Covered - employee payroll	\$ 595,422
Proportionate Share of the net pension liability as percentage of covered-employee payroll	117.41%
Plan's fiduciary net position	\$ 1,961,255
Plan fiduciary net position as a percentage of the total pension liability	73.72%

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Change in Assumptions: None

- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**BORREGO WATER DISTRICT
SCHEDULE OF PLAN CONTRIBUTIONS
LAST 10 YEARS
JUNE 30, 2015**

	June 30, 2014
Contractually required contribution (actuarially determined)	\$ 129,138
Contributions in relation to the actuarially determined contributions	(129,138)
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 595,422
Contributions as a percentage of covered employee payroll	21.69%

Notes to Schedule:

Valuation date: June 30, 2014

- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

BORREGO WATER DISTRICT
SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2015

**BORREGO WATER DISTRICT
ORGANIZATION
JUNE 30, 2015**

The Board of Directors for the fiscal year ended June 30, 2015, was comprised of the following members:

Name	Office	Term	Term expires
Beth Hart	President	4 Years	November 30, 2018
Lyle Brecht	Vice President	4 Years	November 30, 2018
Joseph Tatusko	Treasurer/Secretary	4 Years	November 30, 2018
Raymond Delahay	Director	4 Years	December 2, 2016
Arthur Lee Estep	Director	4 Years	December 2, 2016

Administration	
Name	Position
Jerry Rolwing	General Manager
Kim Pitman	Administration Manager

**BORREGO WATER DISTRICT
ASSESSED VALUATION
JUNE 30, 2015**

The assessed valuation of the Borrego Water District at June 30, 2015, is as follows:

Assessed valuation

Secured property

\$ 335,706,831

Total assessed valuation

\$ 335,706,831

**BORREGO WATER DISTRICT
IMPROVEMENT DISTRICT NUMBER 4
CONDENSED STATEMENT OF NET POSITION
JUNE 30, 2015**

ASSETS	
Current assets	\$ 2,833,657
Capital assets, net of depreciation	2,861,389
Other assets	299,464
TOTAL ASSETS	<u>5,994,510</u>
DEFERRED OUTFLOW OF RESOURCES	90,947
LIABILITIES AND NET POSITION	
Current liabilities	701,129
Long-term liabilities	2,615,000
TOTAL LIABILITIES	<u>3,316,129</u>
DEFERRED INFLOWS OF RESOURCES	102,511
NET POSITION	
Net investment in capital assets	246,389
Unrestricted	2,329,481
TOTAL NET POSITION	<u><u>\$ 2,575,870</u></u>

**BORREGO WATER DISTRICT
IMPROVEMENT DISTRICT NUMBER 4
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2015**

OPERATING REVENUES	
Water revenue	\$ 1,881,846
Other income	88,285
Total operating revenues	1,970,131
OPERATING EXPENSES	
Water operations	796,120
Depreciation	162,583
General and administrative	399,493
Total operating expenses	1,358,196
Gain from operations	611,935
NON-OPERATING REVENUES (EXPENSES)	
Property taxes	44,676
Investment income	49
Interest expense	(122,231)
Amortization expense	(16,492)
Total non-operating revenues (expenses)	(93,998)
INCOME BEFORE CONTRIBUTIONS	517,937
CAPITAL CONTRIBUTIONS	124,124
CHANGE IN NET POSITION	642,061
NET POSITION, BEGINNING	2,382,000
PRIOR PERIOD ADJUSTMENT	(448,191)
NET POSITION, ENDING	\$ 2,575,870

**BORREGO WATER DISTRICT
IMPROVEMENT DISTRICT NUMBER 4
CONDENSED STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2015**

NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 714,115
NET CASH (USED IN) FINANCING ACTIVITIES	(108,527)
NET CASH PROVIDED BY INVESTING ACTIVITIES	49
NET INCREASE IN CASH AND CASH EQUIVALENTS	605,637
CASH AND CASH EQUIVALENTS, BEGINNING	1,964,261
CASH AND CASH EQUIVALENTS, ENDING	\$ 2,569,898

BORREGO WATER DISTRICT
OTHER REPORTS OF INDEPENDENT AUDITORS SECTION
JUNE 30, 2015



INDEPENDENT AUDITORS' REPORT 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 Audit Requirements for California Special Districts, the financial statements of Borrego Water District, as of and for the fiscal year ended June 30, 2015, 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.

INDEPENDENT AUDITORS' REPORT 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
September 14, 2015

BORREGO WATER DISTRICT
FINDINGS AND RECOMMENDATIONS SECTION
JUNE 30, 2015

**BORREGO WATER DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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, 2015**

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