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Certified Public Accountants
and Financial Advisors

Borrego Water District

Financial Statements

June 30, 2016 and 2015

INDEX TO FINANCIAL STATEMENTS

BORREGO WATER DISTRICT

November 18, 2016

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, 2016 is hereby submitted as required. Squar Milner LLP, 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 Auditor's 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, 2016 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, 2016, are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

PROFILE OF THE DISTRICT

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

Borrego Springs is surrounded on all sides by the Anza-Borrego Desert State Park (ABDSP; "the park"). The park, 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 developed for the Anza-Borrego Foundation (ABF) estimates the net regional revenue generated by visitation to the park is approximately $40 million annually (BBC Consulting, 2012).

Infrastructure

The District has 9 active 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

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

The basin is made up of three aquifers: upper, middle and lower aquifers, each with different physical characteristics. These three aquifers, Pleistocene (2.5 million years ago) to Holocene (11,700 years ago) era water deposits, are the community's sole source of water. Historically, the upper aquifer has been the principle source of groundwater in Borrego Valley. At this time there are no plans to import water from outside the Borrego Valley due to the economic cost of a pipeline and the uncertainty in availability of imported supply from the Colorado River. Readers may consult *the Southeast California Regional Basin Study Evaluates Water Supply and Demand in Borrego, Coachella and Imperial Valleys* by the Bureau of Reclamation located at http://www.usbr.gov/newsroornlnewsrelease/detail.cfm?RecordiD=51709 for more information.

Annual agricultural irrigation, golf course irrigation, and residential, institutional, and commercial uses require about four times more water than is available through average annual natural recharge of the basin. Of the current average annual withdrawals from the basin, agricultural irrigation in the Borrego Valley accounts for about 14,000 acre-feet per year (AFY: approximately 70%) of the average annual uses, recreational uses (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 approximately 5,700 AFY annually is based on 66 years of historic data. The actual annual natural net recharge can fluctuate in the arid climate from less than 1,000 AFY in dry years to more than 25,000 AFY in exceptionally wet years.

The current rate of groundwater pumping produces an average annual basin storage change (overdraft) of about 13,300 acre-feet (AF) of water per year based on current withdrawal rates and an estimated average annual net recharge rate of approximately 5,700 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. Readers should review a recent study (2015) by the USGS, *Hydrogeology, Hydrologic Effects of Development, and Simulation of Groundwater Flow in the Borrego Valley, San Diego County,* *California* located at https://pubs.er.usgs.gov/publication/sir2155150 for more complete information.

Even with the current overdraft, the basin probably has adequate water supply possibly for hundreds of years. However, as water levels continue to drop, water quality may also decline, which may require additional treatment for potable uses. Thus, the cost of water supply for potable uses will most likely continue to increase over time.

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 January 2015, the Sustainable Groundwater Management Act (SGMA; "the Act") replaced AB 3030. The Act gives Groundwater Sustainability Agencies (GSAs) the authority to limit extractions, impose fees and penalties, and require metering and water quality monitoring on all basin pumpers other than deminimis pumpers (pumpers who can prove they use less than 2 AFY). GSAs are charged with developing and adopting a Groundwater Sustainability Plan (GSP) that produces basin sustainability in no more than twenty (20) years from 2020 for medium California Statewide Groundwater Monitoring (CASGEM) basins in critical overdraft (the designation of the basin). Both the District and San Diego County ("the County") have applied to be GSAs for the basin.

During this year, the District continued its participation as a member of the Borrego Water Coalition (BWC; "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 Ongoing Drought

In the winter of 2016, the governor extended Executive Order B-29-15 (EO) requiring an emergency mandatory 25% reduction in municipal water use or limited outside watering two days per week. In response to the EO in 2015, the District enacted policies designed to achieve the mandatory 25% reductions in District water use required by the EO. However, the choice by the State Water Resources Control Board (SWRCB) to use 2013 as the base year for reductions penalized the District as rainfall in the Borrego Valley during the summer 2013 was a little more than 4.0 inches, but 2015 rainfall was 0.2 inches. Additionally, the SWRCB provided no credit for the ongoing conservation efforts of that have decreased municipal demand from more than 4,000 AFY in 2005 to approximately I, 700 AFY in 2015, significantly below the EO targets but over a longer baseline period than the SWRCB chose. Additionally, since 2007 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 35% reduction of groundwater withdrawals from the basin against municipal usage of approximately 1,700 AFY.

Thus, in March 2016, the District revised its response to the EO to limit outside watering to 2 days per week in order to avoid SWRCB imposed penalties for not reaching the mandatory 25% municipal reductions mandated under the EO. A Borrego-specific Urgency Ordinance limiting outside watering to 2-days per week was adopted by the Board in April 2016. In May 2016, due to changes in the SWRCB's regulations that allow a district specific response to the drought, the Board rescinded the 2-days per week outside watering Urgency Ordinance.

The EO was established to address the fact that municipal water districts in the state dependent on imported water supplies have approximately only one year of reservoir storage left when normally they have 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.

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 long-term water supply, potential future costs of treating groundwater to meet state drinking water quality standards, and the economic impacts of the Sustainable Groundwater Management Act 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. With the approved 218-rates for FY 2017 - FY 2021, the District should have sufficient annual cash flow and cash reserves to now entertain necessary borrowing to complete needed capital projects.

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 overdraft's impact on water quality (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 2018-2019.

RELEVANT FINANCIAL POLICIES

Reserve Policy

The District has established a Reserve Fund Policy to anticipate and to prepare for future funding requirements as well as for unforeseen events. The Reserve Fund Policy establishes restricted and unrestricted reserves and describes the flow of funds to and from the various reserves. A copy of the District's current approved Reserve Policy is available on the District's website as part of the FY 2017 budget document.

Risk Management

The District is a member of the California Joint Powers Insurance Authority (JPIA). The JPIA pools for the first $500,000 of general, auto & public officials liability coverage and has purchased excess coverage up to $60 million. The JPIA provides coverage on repair or replacement against loss of District property caused by earthquake or flood of $20 million.

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,

Geoff Poole

Geoff Poole
General Manager

squarmilner
Certified Public Accountants
and Financial Advisors

Squar Milner LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Borrego Water District
Borrego Springs, California

We have audited the accompanying financial statements of Borrego Water District, as of and for the fiscal year ended June 30, 2016, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of a Matter

Prior Period Financial Statement

The financial statements of Borrego Water District as of, and for the year ended, June 30, 2015, were audited by other auditors whose report dated September 14, 2015, expressed an unmodified opinion on those statements

Prior Period Adjustments

As discussed in Note 11 to the financial statements, two adjustments to Borrego Water District's net position at June 30, 2015 in the amount of $148,454 due to a correction of an error, and in the amount of $700,038 in order to record the net pension liability. Our opinion is not modified with respect to these matters.

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 3 through 12, and the schedules of proportionate share of the net pension liability and plan contributions on pages 37 and 38, 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 other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Squar Milner LLP

SQUAR MILNER LLP

San Diego, California
November 18, 2016

As management of the Borrego Water District (the "District"), we offer the readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of three main parts (1) Management's Discussion and Analysis, (2) Basic Financial Statements, and (3) Required Supplemental Information.

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

FINANCIAL HIGHLIGHTS

During the fiscal year ended June 30, 2016, the following events impacted, or have the potential to impact, the finances of the District:

- In October 2015, the District accepted the donation of land with a value of $7,274.
- On May 25, 2016, the District's Board approved a budget for fiscal year 2017 that included sewer rate changes that will result in an approximate revenue increase of 9.00% for sewer service charges; a decrease of 20.00% for water base rates; and an increase of 30.00% for water commodity rates over the FY 2016 rates in effect. The new rates took effect July 1, 2016 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 represented $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. During the current year, the District paid $53,839 in refunds and reversed the remaining balance of the reserve to $0 as of June 30, 2016.

FINANCIAL HIGHLIGHTS (continued)

- The income from operations for the fiscal year ended June 30, 2016, was $995,166 compared with income from operations of $673,411 for fiscal year 2015.

- Cash and cash equivalents increased to $3,257,871 at June 30, 2016, from $2,852,388 at June 30, 2015.

- Capital assets decreased to $13,604,086 at June 30, 2016, from $13,689,404 at June 30, 2015.

- The change in net position for the fiscal year ended June 30, 2016, was an increase of $891,852, before the prior period adjustment, compared to an increase in net position of $139,839 for fiscal year 2015.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

Statements of Net Position

The Statements of Net Position presents the District's financial position (assets and liabilities) as of June 30, 2016. Assets in excess of liabilities (Net Position) were $13,103,357 and $12,211,505 as of June 30, 2016 and 2015, 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.

Statements of Revenues, Expenses, and Changes in Net Position

The Statements of Revenues, Expenses, and Changes in Net Position presents the District's results of operations for the year ended June 30, 2016 and 2015. In accordance with GAAP, revenues are recognized (recorded) when water, sewer or other services are provided, and expenses are recognized when incurred. Operating revenues and expenses are related to the District's core activities (providing water, sewer, pest control and flood control services). Non-operating revenues and expenses are not directly related to the core activities, e.g. investment income, interest expense, etc. The operating income for the fiscal year ended June 30, 2016 of $995,166 is combined with net non-operating revenues and expenses of ($109,206), capital contributions of $7,472 and impairment of capital assets of ($1,580), to arrive at the change of net position of $891,852. The increase in net position is added to the beginning net position of $12,211,505 to arrive at the ending net position of $13,103,357 as of June 30, 2016.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Analysis of Net Position

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

Borrego Water District's Net Position

	2016	2015	Variance $	Variance %
ASSETS				
Cash and investments	$ 3,257,871	$ 2,852,388	$ 405,483	14.22%
Capital assets	13,604,086	13,689,404	(85,318)	-0.62%
Other assets	548,355	508,472	39,883	7.84%
TOTAL ASSETS	17,410,312	17,050,264	360,048	2.11%
DEFERRED OUTFLOWS OF RESOURCES	357,429	261,309	96,120	36.78%
LIABILITIES				
Current liabilities	406,765	687,029	(280,264)	-40.79%
Noncurrent liabilities	4,011,230	4,252,926	(241,696)	-5.68%
TOTAL LIABILITIES	4,417,995	4,939,955	(521,960)	-10.57%
DEFERRED INFLOWS OF RESOURCES	246,389	160,113	86,276	53.88%
NET POSITION				
Net investment in capital assets	10,092,085	9,949,404	142,681	1.43%
Unrestricted	3,011,272	2,262,101	749,171	33.12%
TOTAL NET POSITION	$ 13,103,357	$ 12,211,505	$ 891,852	7.30%

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Analysis of Revenues and Expenses

Borrego Water District's Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2016 and 2015:

	2016	2015	Variance $	Variance %
OPERATING REVENUES				
Water revenue	$ 3,026,055	$ 2,873,643	$ 152,412	5.30%
Sewer service charges	551,218	534,828	16,390	3.06%
Availability charges	241,404	245,215	(3,811)	-1.55%
Golf revenue	-	541	(541)	-100.00%
Other income	1,326	2,725	(1,399)	-51.34%
Total operating revenues	3,820,003	3,656,952	163,051	4.46%
OPERATING EXPENSES				
Water operations	1,560,372	1,631,699	(71,327)	-4.37%
Sewer operations	454,282	491,290	(37,008)	-7.53%
General and administrative	810,183	860,552	(50,369)	-5.85%
Total operating expenses	2,824,837	2,983,541	(158,704)	-5.32%
INCOME FROM OPERATIONS	995,166	673,411	321,755	47.78%
NON OPERATING EXPENSES, NET	(109,206)	(163,388)	54,182	-33.16%
INCOME BEFORE CONTRIBUTIONS AND IMPAIRMENTS	885,960	510,023	375,937	73.71%
CAPITAL CONTRIBUTIONS	7,472	124,124	(116,652)	-93.98%
IMPAIRMENT OF CAPITAL ASSETS	(1,580)	(494,308)	492,728	-99.68%
CHANGE IN NET POSITION	891,852	139,839	752,013	537.77%
TOTAL NET POSITION, BEGINNING	12,211,505	12,920,158	(708,653)	-5.48%
PRIOR PERIOD ADJUSTMENT	-	(848,492)	848,492	100.00%
TOTAL NET POSITION, ENDING	$ 13,103,357	$ 12,211,505	$ 891,852	7.30%

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Analysis of Revenues and Expenses (continued)

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

- Increase in revenue due to rate increases enacted in August 2015.

- Decrease in the cost of providing water and sewer service, primarily due to lower repairs and maintenance and pumping costs, offset by increases in salaries.

- Total non-operating expenses, net, decreased due primarily to the gain on disposal of assets compared to a loss in the prior year.

- General and Administrative expense decreased due primarily to lower costs associated with the Rams Hill Golf Course.

- Decrease in capital contributions due to the land provided for the Groundwater Management Flood Basin in 2015, and a decrease in the impairment of water credits due to a valuation adjustment in 2015.

- Decrease in the prior period adjustment due a correction of an error and the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, in 2015.

BUDGET HIGHLIGHTS

Fiscal Year 2016 Actual vs. Fiscal Year 2016 Budget

	2016 Actual	2016 Budget	Variance $	Variance %
REVENUES				
From operations	$ 3,820,003	$ 3,738,633	$ 81,370	2.18%
Nonoperating	71,569	64,080	7,489	11.69%
Total revenue	3,891,572	3,802,713	88,859	2.34%
EXPENSES				
Water operations	1,560,372	1,993,365	(432,993)	-21.72%
Sewer operations	454,282	425,065	29,217	6.87%
General and administrative	810,183	1,202,678	(392,495)	-32.64%
Other non-operating expenses	180,775	254,525	(73,750)	-28.98%
Total expenses	3,005,612	3,875,633	(870,021)	-22.45%
Capital Contributions	7,472	-	7,472	100.00%
Impairment of capital assets	(1,580)	-	(1,580)	100.00%
CHANGE IN NET POSITION	$ 891,852	$ (72,920)	$ 964,772	1323.06%

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

Borrego Water District's Capital Assets

			2015/2016 Variance	
	2016	2015	$	%
Land and land improvements	$ 1,013,650	$ 1,006,178	$ 7,472	0.74%
Flood control facilities	4,319,604	4,319,604	-	0.00%
Sewer facilities	6,132,473	5,817,631	314,842	5.41%
Water facilities	10,648,734	10,606,930	41,804	0.39%
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	386,925	265,675	121,250	45.64%
Vehicles	540,195	562,636	(22,441)	-3.99%
Construction in progress	279,806	271,275	8,531	3.14%
Fallowed water credits	1,030,650	1,030,650	-	0.00%
Water rights-ID #4	185,000	185,000	-	0.00%
Total assets	25,742,076	25,270,618	471,458	1.87%
Less accumulated depreciation	(12,137,990)	(11,581,214)	(556,776)	-4.81%
Net capital assets	$ 13,604,086	$ 13,689,404	$ (85,318)	-0.62%

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.

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Debt Administration (continued)

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

Year Ending June 30,	Principal	Interest	Totals
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	175,000	79,538	254,538
2022-2026	985,000	271,238	1,256,238
2027-2029	695,000	48,036	743,036
	$ 2,475,000	$ 790,088	$ 3,265,088

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

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

Year Ending June 30,	Principal	Interest	Totals
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	114,298	29,189	143,487
2022 - 2025	517,808	56,141	573,949
	$ 1,037,001	$ 254,386	$ 1,291,387

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 2016 - 2017 budget, user fees and charges. The District attempts to balance revenues with operating expenses that have increased due to inflationary factors, such as cost of living, cost of water, and insurance coverage.

These indicators were taken into consideration when adopting the District's budget for the fiscal year 2016 - 2017. 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 2016 Actual vs. Fiscal Year 2017 Budget

	2017 Budget	2016 Actual	2016/2017 Variance $	2016/2017 Variance %
REVENUES				
Operating Revenue	$ 3,748,036	$ 3,820,003	$ (71,967)	-1.88%
Nonoperating	65,049	71,569	(6,520)	-9.11%
Total revenue	3,813,085	3,891,572	(78,487)	-2.02%
EXPENSES				
Operating expenses	2,706,119	2,824,837	(118,718)	-4.20%
Other non operating expenses	157,720	180,775	(23,055)	-12.75%
Total expenses	2,863,839	3,005,612	(141,773)	-4.72%
Capital Contributions	-	7,472	(7,472)	-100.00%
Impairment of capital assets	-	(1,580)	1,580	-100.00%
CHANGE IN NET POSITION	$ 949,246	$ 891,852	$ 57,394	6.44%

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to give ratepayers, customers, investors, and creditors a general overview of the District's finances and to demonstrate the District's accountability for the money it receives and the stewardship of the facilities it maintains. If you have questions about this report or need additional information, contact Geoff Poole, General Manager or Kim Pitman, Fiscal Officer at the Borrego Water District, 806 Palm Canyon Drive, Borrego Springs, California, 92004 or by telephone at (760) 767-5806.

BORREGO WATER DISTRICT
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,248,811	$ 2,830,294
Restricted cash and cash equivalents:		
Customer deposits	9,060	22,094
Accounts receivable:		
Water and sewer, net of allowance	382,840	351,121
Inventory	133,545	123,656
Prepaid expenses	31,970	33,695
Total current assets	3,806,226	3,360,860
Noncurrent assets:		
Capital assets:		
Land	1,013,650	1,006,178
Construction in progress	279,806	271,275
Fallowed water credits	1,030,650	1,030,650
Water rights - ID 4	185,000	185,000
Capital assets being depreciated, net	11,094,980	11,196,301
Total noncurrent assets	13,604,086	13,689,404
TOTAL ASSETS	17,410,312	17,050,264
DEFERRED OUTFLOWS OF RESOURCES		
Debt refunding costs, net of amoritization	112,546	122,550
Pension related costs	244,883	138,759
TOTAL DEFERRED OUTFLOWS OF RESOURCES	357,429	261,309

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

BORREGO WATER DISTRICT
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	2016	2015
LIABILITIES		
Current liabilities:		
Accounts payable	48,795	159,891
Accrued expenses	-	172,195
Accrued interest payable	42,891	42,044
Short-term compensated absences	67,138	62,806
Customer deposits	9,060	22,094
Current portion of note payable	238,881	227,999
Total current liabilities	406,765	687,029
Noncurrent liabilities:		
Compensated absences	44,758	41,870
Net pension liability	693,352	699,055
Notes payable, net of current portion	3,273,120	3,512,001
Total noncurrent liabilities	4,011,230	4,252,926
TOTAL LIABILITIES	4,417,995	4,939,955
DEFERRED INFLOWS OF RESOURCES		
Pension related costs	246,389	160,113
NET POSITION		
Net investment in capital assets	10,092,085	9,949,404
Unrestricted	3,011,272	2,262,101
TOTAL NET POSITION	$ 13,103,357	$ 12,211,505

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

BORREGO WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Water revenue	$ 3,026,055	$ 2,873,643
Sewer service charges	551,218	534,828
Availability charges	241,404	245,215
Golf revenue	-	541
Other income	1,326	2,725
Total operating revenues	3,820,003	3,656,952
OPERATING EXPENSES		
Water operations	1,560,372	1,631,699
Sewer operations	454,282	491,290
General and administrative	810,183	860,552
Total operating expenses	2,824,837	2,983,541
Income from operations	995,166	673,411
NON-OPERATING REVENUES (EXPENSES)		
Property taxes	64,473	74,460
Investment income	96	81
Gain (loss) on disposal of assets	7,000	(48,834)
Interest expense	(170,771)	(179,091)
Amortization expense	(10,004)	(10,004)
Total non-operating revenues (expenses)	(109,206)	(163,388)
INCOME BEFORE CONTRIBUTIONS AND IMPAIRMENTS	885,960	510,023
CAPITAL CONTRIBUTIONS	7,472	124,124
IMPAIRMENT OF CAPITAL ASSETS	(1,580)	(494,308)
CHANGE IN NET POSITION	891,852	139,839
NET POSITION, BEGINNING	12,211,505	12,920,158
PRIOR PERIOD ADJUSTMENT	-	(848,492)
NET POSITION, ENDING	$ 13,103,357	$ 12,211,505

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

BORREGO WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from water and sewer customers	$ 3,545,554	$ 3,418,864
Receipts from availability charges	241,404	245,215
Receipts from golf course	-	541
Payments to suppliers	(1,360,333)	(1,057,517)
Payments to employees	(1,093,048)	(1,101,290)
Other receipts	1,326	4,997
Net cash provided by operating activities	1,334,903	1,510,810
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	64,473	74,460
Net cash provided by noncapital financing activities	64,473	74,460
CASH FLOWS FROM CAPITAL AND REALTED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(589,066)	(306,618)
Proceeds from sale of assets	(7,000)	9,934
Proceeds from debt issuance	-	1,125,000
Principal paid on long-term debt	(227,999)	(1,260,000)
Interest payments on long-term debt	(169,924)	(270,332)
Net cash used in investing activities	(993,989)	(702,016)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	96	81
Net cash provided from financing activities	96	81
NET INCREASE IN CASH AND CASH EQUIVALENTS	405,483	883,335
CASH AND CASH EQUIVALENTS , BEGINNING OF YEAR	2,852,388	1,969,053
CASH AND CASH EQUIVALENTS , END OF YEAR	$ 3,257,871	$ 2,852,388

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

BORREGO WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	2015
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	$ 995,166	$ 673,411
Adjustments to reconcile change in income from operations to net cash provided by operating activities:		
Depreciation	617,480	593,486
(Increase) decrease in operating assests:		
Accounts receivable	(31,719)	10,393
Other receivables	-	2,272
Inventories	(9,889)	17,057
Prepaid expenses	1,725	(4,557)
Deferred outflows of resources	(96,120)	(138,759)
Increase (decrease) in operating liabilities:		
Accounts payable	(111,096)	16,973
Accrued expenses	(105,403)	172,195
Customer deposits	(13,034)	850
Short-term compensated absences	7,220	8,359
Net pension liability	(5,703)	(983)
Deferred inflows of resources	86,276	160,113
Net cash provided by operating activities	$ 1,334,903	$ 1,510,810
RECONCILIATION TO BALANCE SHEET		
Cash	$ 3,248,811	$ 2,830,294
Restricted: Cash and Cash Equivalents	9,060	22,094
Net reconciliation to balance sheet	$ 3,257,871	$ 2,852,388
SUPPLEMENTAL DISCLOSURES		
Schedule of non-cash investing and financing activities:		
Contributions of water system assets by customers and developers	$ 7,472	$ 124,124

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

Basis of Accounting

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

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

Financial Reporting

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

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

Governmental Accounting Standards Implementation in Current Year

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Accounting Standards Implementation in Current Year (continued)

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

Assets, Liabilities, and Equity

Cash and Cash Equivalents and Investments

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

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

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

Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided based on anticipated collectability of the outstanding utility receivables and other receivables at year-end. At fiscal year ended June 30, 2016 and 2015, management has not recorded an allowance for doubtful accounts as it estimates all receivables at June 30, 2016 and 2015 to be collectible.

Inventories

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Capital Assets

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

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

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

Deferred Outflows/Inflows of Resources

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

The deferred charge of debt refunding costs resulted from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. As of June 30, 2016 and 2015, the balance of the debt refunding costs is $112,546 and $122,550, respectively.

The pension plan related costs are made up of three components: employer contributions paid during the year ended June 30, 2016 and 2015 in the amount of $138,617 and $138,759, respectively, which are deferred under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27,* (GASB Statement No. 68); adjustments due to differences between expected and actual experience of $8,893 and $0 as of June 30, 2016 and 2015, respectively, and difference between actual and projected contributions in the amount of $97,373 and $0 as of June 30, 2016 and 2015, respectively, which are amortized over straight-line basis over the average expected remaining service lives of all members that are provided with benefits.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Deferred Outflows/Inflows of Resources (continued)

As of June 30, 2016 and 2015, the deferred outflow pension related costs are $244,883 and $138,759, respectively.

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

The deferred inflows of resources is made up of three components; net difference between projected and actual earnings on pension plan investments in the amount of $42,181 and $134,716 as of June 30, 2016 and 2015, respectively, which is amortized on a straight-line basis over five years; and adjustment due to differences in proportions in the amount of $120,068 and $25,397 as of June 30, 2016 and 2015, respectively, and change in assumptions in the amount of $84,140 and $0 as of June 30, 2016 and 2015, respectively, which are amortized over the straight-line basis over the average expected remaining service lives of all members that are provided with benefits.

As of June 30, 2016 and 2015, the deferred inflow pension related cost is $246,389 and $160,113, respectively.

Compensated Absences

Accumulated unpaid employee vacation benefits and sick leave are recognized as accrued payroll liabilities in the Statement of Net Position. As of June 30, 2016 and 2015, the District had $111,896 and $104,676, respectively, of accrued vacation and sick leave.

Pensions

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Pensions (continued)

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. As of June 30, 2016 and 2015, the following timeframes are used:

	2016	2015
Valuation Date (VD)	June 30, 2014	June 30, 2013
Measurement Date (MD)	June 30, 2015	June 30, 2014
Measurement Period (MP)	July 1, 2014 to June 30, 2015	July 1, 2013 to June 30, 2014

Interfund Activity

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

Capital Contributions

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

Property Taxes

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Use of Estimates

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

Reclassifications

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

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

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

Violation	Action Taken
None reported	Not applicable

3. CASH AND CASH EQUIVALENTS

The summary of cash and cash equivalents is as follows at June 30, 2016 and 2015:

	2016	2015
Cash in banks:		
Restricted	$ 9,060	$ 22,094
Unrestricted	3,227,506	2,809,026
Cash on hand	234	286
Local Agency Investment Fund	21,071	20,982
Total cash and cash equivalents	$ 3,257,871	$ 2,852,388

Custodial Credit Risk

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

3. CASH AND CASH EQUIVALENTS (continued)

Custodial Credit Risk (continued)

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure governmental agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). The District maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The District has not experienced any losses in such accounts. At June 30, 2016 and 2015 the District had $3,039,044 and $2,620,851, respectively, in excess of FDIC insured limits, and the remaining balance of the deposits were collateralized under California Law.

Local Agency Investment Fund

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized costs of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. At June 30, 2016 and 2015 the District had deposited with LAIF $21,071 and $20,982, respectively.

4. CAPITAL ASSETS

A schedule of changes in capital assets and accumulated depreciation for the fiscal year ended June 30, 2016, is shown as follows:

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

4. CAPITAL ASSETS (continued)

The change 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)	(593,486)	10,401	(11,581,214)
Total capital assets, being depreciated, net	11,583,599	(376,365)	(10,933)	11,196,301
Capital assets, net of depreciation	$ 14,705,224	$ (162,744)	$ (853,076)	$ 13,689,404

5. LONG TERM OBLIGATIONS

Long-term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the fiscal year ended June 30, 2016, are as follows:

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

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	$ 4,175,000	$ 1,125,000	$ 1,560,000	$ 3,740,000	$ 227,999

Refunding Installment Purchase

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

5. LONG TERM OBLIGATIONS (continued)

Refunding Installment Purchase (continued)

The bonds are payable in annual principal installments of $25,000 to $245,000 on October 1 of each year beginning 2013 through 2028. Interest is payable semi-annually on April 1 and October 1 at an interest rate of 4.50% per annum. The installment payments are a special obligation of the District payable solely from revenues of Improvement District No. 4. Accrued interest for the year ended June 30, 2016 and 2015 was $34,312 and $32,737, respectively.

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

Year Ending June 30,	Principal	Interest	Totals
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	175,000	79,538	254,538
2022-2026	985,000	271,238	1,256,238
2027-2029	695,000	48,036	743,036
	$ 2,475,000	$ 790,088	$ 3,265,088

Compass Bank Note

On May 22, 2015, the District entered into a 10 year promissory note agreement with Compass Bank in the amount of $1,125,000. Payments of principal and interest of $35,872, at 4.95% interest per annum, are due quarterly starting September 1, 2015 through June 1, 2025. The note is secured by a senior pledge of net water system revenues of the District (net of Improvement District Number 4 operations), which is the result of total water revenue for the District, less the revenue that it attributed to Improvement District Number 4, and was $924,729 and $991,797 for the years ended June 30, 2016 and 2015, respectively. The note is further secured by a subordinate pledge of net systems revenues of the District's Improvement District Number 4 operations, which is the total water revenues of Improvement District Number 4 of $2,101,326 and $1,881,846 for the years ended June 30, 2016 and 2015, respectively.

The District had a debt services ratio requirement of 1.25:1, which is calculated by taking the total operating revenue, add back interest expense, and depreciation and amortization expense, then divided by the sum of principal and interest related to debt paid during the year, and was 11.6:1 and 17.3:1 for the years ended June 30, 2016 and 2015, respectively.

Accrued interest for the year ended June 30, 2016 and 2015 was $8,579 and $9,307, respectively.

5. LONG TERM OBLIGATIONS (continued)

Compass Bank Note (continued)

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

Year Ending June 30,	Principal	Interest	Totals
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	114,298	29,189	143,487
2022 - 2025	517,808	56,141	573,949
	$ 1,037,001	$ 254,386	$ 1,291,387

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.

6. OPERATING LEASES

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

6. OPERATING LEASES (continued)

Future minimum lease payments are as follows:

Year ending June 30,	Lease payments
2017	$ 5,850
2018	4,199
2019	4,199
2020	4,199
2021	348
	$ 18,795

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, 2016 and 2015 was $5,150 and $15,439, respectively.

7. JOINT VENTURES (JOINT POWERS AGREEMENTS)

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

California Water Agencies Joint Powers Insurance Authority (JPIA)

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

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

8. EMPLOYEE RETIREMENT PLAN

Plan Description, Benefits Provided and Employees Covered

The District contributes to the Miscellaneous 3.0% at 60 Risk Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained at www.calpers.ca.gov under Forms and Publications.

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

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the active employee contribution rate as a percentage of annual pay is 8.00% for Tier 1, 7.00% for Tier 2 and 6.25% for new employees. The employer's contribution rate is 11.065% after payment of the Annual Lump Sum Payment Option. For the measurement period ended June 30, 2014 (the measurement date), the active employee contribution rate as a percentage of annual pay is 8.00% for Tier 1, 7.00% for Tier 2 and 6.25% for new employees. The employer's contribution rate is 10.414% after payment of the Annual Lump Sum Payment Option. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

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

8. EMPLOYEE RETIREMENT PLAN (continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

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

8. EMPLOYEE RETIREMENT PLAN (continued)

Discount Rate (continued)

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65% for the year ended June 30, 2016 investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65% for the year ended June 30, 2016. 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.

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.

8. EMPLOYEE RETIREMENT PLAN (continued)

Discount Rate (continued)

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

Asset Class	Current Target Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	19.00%	0.99%	2.43%
Inflation Assets	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

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

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

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

	Discount Rate -1.00% 6.65%	Current Discount Rate 7.65%	Discount Rate +1.00% 8.65%
Misc Plan's Net Pension Liability	$ 1,162,800	$ 693,352	$ 305,768

8. EMPLOYEE RETIREMENT PLAN (continued)

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, 2016 the District reported a payable of $0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

The District contributions to CalPERS for the fiscal years ending June 30, 2016 was $142,983, and equals 100% of the required contributions for each year.

9. SEGMENT INFORMATION

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

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

Condensed Statements of Net Position

	2016	2015
Assets		
Current assets	$ 3,534,806	$ 2,833,657
Capital assets, net of depreciation	2,805,825	2,861,389
Other assets	112,546	213,497
Total Assets	6,453,177	5,908,543
Deferred Outflows of Resources	146,880	90,947
Liabilities		
Current liabilities	705,981	841,129
Long-term liabilities	2,330,000	2,475,000
Total Liabilities	3,035,981	3,316,129
Deferred Inflows of Resources	154,277	102,511
Net Position		
Net investment in capital assets	475,825	386,389
Unrestricted	2,933,974	2,194,461
Total Net Position	$ 3,409,799	$ 2,580,850

9. SEGMENT INFORMATION (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2016	2015
Operating Revenues		
Water revenue	$ 2,101,326	$ 1,881,846
Other income	84,584	88,285
Total operating revenues	2,185,910	1,970,131
Operating Expenses		
Water operations	954,819	958,703
General and administrative	322,247	399,493
Total operating expenses	1,277,066	1,358,196
Gain from operations	908,844	611,935
Non-Operating Revenues (Expenses)		
Property taxes	38,684	44,676
Investment income	53	49
Interest expense	(116,100)	(122,231)
Amortization expense	(10,004)	(16,492)
Total non-operating revenues (expenses)	(87,367)	(93,998)
Income Before Contributions	821,477	517,937
Capital Contributions	7,472	124,124
Change In Net Poition	828,949	642,061
Net Position, Beginning	2,580,850	2,382,000
Prior Period Adjustment	-	(443,211)
Net Position, Ending	$ 3,409,799	$ 2,580,850

9. SEGMENT INFORMATION (continued)

Condensed Statements of Cash Flows

	2016	2015
Net Cash Provided By Operating Activities	$ 1,007,643	$ 714,115
Net Cash Flows From Non-Capital and Related Financing Activities	38,684	44,675
Net Cash Flows From Capital and Related Financing Activities	(364,125)	(153,202)
Net Cash Provided by Investing Activities	53	49
Net Increase in Cash and Cash Equivalents	682,255	605,637
Cash and Cash Equivalents, Beginning	2,569,898	1,964,261
Cash and Cash Equivalents, Ending	$ 3,252,153	$ 2,569,898

10. NONCOMMITMENT DEBT

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

On March 14, 2007, the Board of Directors adopted a resolution stating its intention to establish Community Facilities District No. 2007-1 and to authorize bonded indebtedness within the Community Facilities District. On April 25, 2007, the Community Facilities District 2007-1 was formed and an election was held to authorize the Community Facilities District 2007-1 to incur bonded indebtedness of up to $11,000,000 to refinance outstanding balances of the Community Facilities District 95-1 1996 Special Tax Bonds. On June 14, 2007, the Community Facilities District No. 2007-1 issued the 2007 Special Tax Bonds in the amount of $9,530,000. The balance of principal and interest outstanding 2007-1 bonds at June 30, 2016 and 2015 was $4,889,080 and $4,880,537, respectively.

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

10. NONCOMMITMENT DEBT (continued)

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

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

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

For the fiscal year ending June 30, 2016 and 2015, there was a special tax delinquency rate of approximately 98.26%, respectively, in the Community Facilities District. The Community Facilities District has not made any regularly scheduled payments since August 1, 2011 to date, June 30, 2016. At June 30, 2016, the balance in the reserve fund is $0. The Community Facilities District commenced foreclosure proceedings in the prior year and is continuing proceedings against certain property owners that are delinquent.

11. PRIOR PERIOD ADJUSTMENTS

An adjustment to the District's net position at June 30, 2015 in the amount of $148,454 was due to the correction of an error in regards to the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.

REQUIRED SUPPLEMENTARY INFORMATION

BORREGO WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS
June 30, 2016 and 2015

	June 30, 2016	June 30, 2015
Proportion of the net pension liability	0.02527%	0.01123%
Proportionate share of the net pension liability	$ 693,352	$ 699,055
Covered - employee payroll	$ 671,180	$ 595,422
Proportionate Share of the net pension liability as percentage of covered-employee payroll	103.30%	117.41%
Plan's Proportionate Share of Aggregate Employer Contributions	$ 79,728	$ 53,036
Plan fiduciary net position as a percentage of the total pension liability	77.21%	73.72%

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact.

This applies to 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 first year of implementation, therefore only two years are shown.

See accompanying Independent Auditor's Report.

BORREGO WATER DISTRICT
SCHEDULE OF PLAN CONTRIBUTIONS
LAST 10 YEARS
June 30, 2016 and 2015

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

Notes to Schedule:

Valuation date:	June 30, 2015	June 30, 2014

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

OTHER SUPPLEMENTARY INFORMATION

BORREGO WATER DISTRICT
ORGANIZATION
June 30, 2016

The Board of Directors for the fiscal year ended June 30, 2016, 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
Geoff Poole	General Manager
Kim Pitman	Administration Manager

BORREGO WATER DISTRICT
ASSESSED VALUATION
June 30, 2016 and 2015

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

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

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

Assessed valuation	
Secured property	$ 341,378,673
Total assessed valuation	$ 341,378,673