BORREGO WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Leaf & Cole, LLP
Certified Public Accountants

BORREGO WATER DISRICT
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December 15, 2020

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

State law requires that all general-purpose local governments and special districts publish each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The Annual Financial Report of the Borrego Water District (BWD; District) for fiscal year ended June 30, 2020 is hereby submitted as required by Leaf and Cole, LLP., a firm of licensed certified public accountants, who has audited the District's financial statements.

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

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

The goal of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2020 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 unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2020 are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this year's audit report.

PROFILE OF THE DISTRICT

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

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

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

Infrastructure

The District has 9 production wells with a replacement cost of approximately $1,500,000 each. These production wells are located primarily in the Central Management Area of the groundwater basin and are connected to approximately 100 miles of distribution lines. The District's water system serves approximately 2,059 residential, commercial, institutional, and irrigation customers. The District currently delivers approximately 1,600 acre-feet (521 million gallons) annually to its customers. The District also provides sewer and wastewater treatment services to approximately 830 customers located primarily in the Town Center, Club Circle and Rams Hill developments. The District's flood control authority is presently exercised only at Rams Hill. The estimated present replacement cost value of the District's water, sewer and wastewater treatment facilities infrastructure is approximately $62,500,000.

Governance

A five-member board of directors work as a team to govern the affairs of the District. The board is elected at large by the registered voters residing within the District's boundaries, with vacant positions that occur between elections appointed by the existing board and during election years by the San Diego County Board of Supervisors if there is no competition for a seat on the board. The directors, who are elected or appointed, are residents and have similar concerns as their constituents.

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

Groundwater Supply, Usage & Availability

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

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

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

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

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

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

The net replenishment (natural recharge less outflows) of the basin of approximately 5,700 acre-feet per year (AFY) annually is based on historical data (1945-2015). During this period the actual annual natural net recharge was highly variable, fluctuating from less than 1,000 AFY during long dry periods to more than 25,000 AFY in exceptionally wet years.

The current rate of groundwater pumping produces an average annual basin storage change (overdraft) of approximately 13,000 AF of water per year based on estimated current withdrawal rates using evapotranspiration rates by crop type for agricultural and recreational withdrawals and municipal metered usage and the US Geological Survey's (USGS) calculated average annual net replenishment rate. Based on the historical data from 66 years, groundwater levels have declined as much as 126 feet (average of nearly 2 feet per year) in the northern part of the Subbasin and about 87 feet (average of 1.3 feet per year) in the west–central part. In the southeastern part of the Subbasin where less groundwater has been pumped, groundwater levels have remained relatively stable during the same time period. At the current rate of use, the groundwater supply from the Subbasin is not sustainable.

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

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

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 to San Diego County.

Sustainable Groundwater Management Act of 2014 (SGMA)

The overarching aim of SGMA is to establish and achieve a *sustainability goal* for the Subbasin through the development and implementation of a Groundwater Sustainability Plan (GSP) by the Groundwater Sustainability Agency (GSA) for the Subbasin or alternatively by a Watermaster implementing a *Physical Solution* under a court Stipulated Judgment. Both are valid options under SGMA. In enacting SGMA, the Legislature also set forth more specific purposes underlying the legislation, which include providing for sustainable management of groundwater, avoiding six designated *undesirable results* to groundwater resources that could occur without proper management, enhancing the ability of local agencies to take action to protect groundwater resources, and preserving the security of water rights to the greatest extent possible consistent with sustainable management of groundwater.

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

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

In October 2019, the County informed DWR of its decision to decline further participation as a GSA for the implementation phase of SGMA effective December 31, 2019. On January 30, 2020, pursuant to California Water Code (CWC) Sections 10733.6 and 10737.4, BWD submitted to DWR a proposed Stipulated Judgment including a groundwater management plan (GMP), constituting a *Physical Solution* for DWR's review and approval to serve as an alternative to a GSP for the Subbasin in compliance with SGMA. The pumpers of the Subbasin representing approximately 92% of annual extractions agreed to a Settlement of water rights also applied to the California Superior Court (Court) for a Stipulated Judgement (Judgement). Until the Court approves the Judgement, the Subbasin pumpers have agreed to implement the *Physical Solution* under an interim Watermaster board. BWD has agreed to hold its GSA responsibilities in abeyance until the Court rules on the Judgement, at which time BWD would dissolve the GSA.

The first Annual Report for the Borrego Springs Groundwater Subbasin has been prepared for submittal to the California State Department of Water Resources (DWR) on April 1, 2020 per Article 7, Section 356.2—Annual Reports, of the California Code of Regulations. This report has been prepared for the Borrego Water District (BWD) on behalf of the stipulating parties to the proposed groundwater rights adjudication for the Borrego Springs Groundwater Subbasin (Subbasin) (DWR Basin No. 7.024.01) of the Borrego Valley Groundwater Basin. This GSA report is available at: *http://www.bvgsp.org/watermaster-board-meetings.html*.

California's Ongoing Drought

Because the Borrego Valley relies solely on the Subbasin for its municipal, recreational, and farming irrigation uses, the California drought has produced no physical impairment of water supply for BWD and is not expected to do so in the near future. Although in 2017, the California drought was officially declared over, Borrego water users continue to make investments to use water more efficiently and to engage in water conservation programs. The desert environment provides an ongoing impetus to use water wisely.

Capital Improvements Program (CIP)

BWD updates its 10-year CIP project costs annually in consultation with its district engineer. Detail of the projects and costs incurred under its bond with Pacific Western Bank are included in BWD's annual budget.

Cyber Security Risk Management

BWD has a robust cybersecurity policy and engages in ongoing and periodic intrusion detection services performed by a professional cyber security firm for both exterior and interior hacking threats.

Flood Risk Management

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

Groundwater Water Levels and Water Quality Changes Risk Management

The groundwater level monitoring network includes 23 dedicated monitoring wells and 27 extraction wells. Of the 50 wells in the network, 46 are monitored for groundwater levels, 30 are monitored for water quality, and 19 are monitored for production. Manual groundwater level measurements are collected in the spring and fall of each year to track seasonal groundwater trends. Groundwater quality monitoring includes sampling, on average, 30 wells on a semi-annual basis to determine and track groundwater quality trends. Wells are monitored for potential contaminants of concern (COCs). The COCs include arsenic, fluoride, nitrate, sulfate and total dissolved solids (TDS).

COVID-19 Risk Management Policies

The national COVID-19 public health emergency presents a range of challenges, including ensuring level of service, assisting low-income customers, and assuring responsible financial management of the District. The BWD Board shares its customers' concerns about the coronavirus. The District's primary public health responsibility is to continue providing safe water to drink and use, right from the tap. The District's treatment process effectively removes viruses, including COVID-19, and we're testing it daily, weekly and monthly to assure it continues to meet federal and state drinking water standards. We have suspended all turn-offs for nonpayment, to ensure everyone continues to have access to water for washing hands and cleaning. We have cancelled all meetings or gatherings for non-essential purposes during this emergency, and are holding public meeting via the internet. We have also closed our lobby to the public to protect our office staff and implemented social distancing for our field staff. Additionally, all our staff have paid sick leave and if they have been exposed to the virus or are symptomatic are told to stay home from work.

FACTORS AFFECTING FINANCIAL CONDITION

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

Local Economy

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

For example, one result of SGMA is to change the present cost of the groundwater itself from zero dollars for use to a positive amount. Borrego is considered a Severely Disadvantaged Community (SDAC). A SDAC is defined as a community with a median household income (MHI) of less than 60% of the California statewide MHI. The Valley is also considered an Economically Distressed Area (EDA). An EDA is defined as a geographic area with a population of 20,000 or less with an annual MHI that is less than 85% of the California statewide MHI, and with at least one of the following conditions, as determined by the Department of Water Resources (DWR): a) financial hardship; b) unemployment rate at least 2% higher than the statewide average; or c) low population density.

Previous Fiscal Years Spending by the District

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

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

Environmental and Climate Changes

Decisions concerning land use, application to the land of substances that may contaminate groundwater, and the use of inadequate sureties for County grading permits in order to restore development-disturbed desert lands are some of the environmental changes that may cause additional costs for the District to provide potable municipal water to its customers. Additionally, with the advent of Anthropogenic Climate Disruption (climate change), the current scientifically accepted prognosis is for potentially greater future climate variability. Such variability may result in higher frequency of floods and longer periods of lower precipitation in the Park's watersheds that provide recharge to the Subbasin, and increased risk for wildfires due to longer, drier conditions. Thus, climate changes may introduce additional costs for the District to provide potable municipal water to its customers.

Long-Term Financial Planning

Through a coordinated strategic process, the Board has established a series of policies and plans to effectively meet the District's anticipated future revenue needs. The principles the District has adopted for maintaining revenue sufficiency and good credit include: (a) the active management and projection of monthly cash flow during the year; (b) holding operating and maintenance (O&M) expenditures to the annual budget; (c) minimal increases in salaries and benefits for employees; (d) refinancing of existing debt obligations where such refinancing would produce reductions in future long term cash obligations; (e) minimizing its reliance of operating cash flow to fund CIP; (f) the active development of state and federal grant opportunities for funding CIP and SGMA-related costs; (g) implementing annual water and sewer rate increases to increase cash flow and to accumulate cash reserves; (h) the maintenance of sufficient cash reserves to address emergency and environmental and climate change risk factors; and (i) pursuing regular proactive Proposition 218 5-year rate increase approvals.

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

RELEVANT FINANCIAL POLICIES

Reserve Policy

The District has established a Reserve Funds Policy to anticipate and to prepare for future funding requirements as well as for unforeseen events. The Reserve Funds Policy establishes restricted and unrestricted reserves and describes the flow of funds to and from the various reserves. A copy of the District's updated and approved Reserve Funds Policy, along with the projected reserve funds targets, is available on the District's website as a component of the most recent fiscal year budget document.

Risk Management

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

Pension and Other Post-Employment Benefits

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

Investment Policy

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

Internal Controls

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

Respectfully submitted,

Geoffrey Poole, General Manager

Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Borrego Water District
806 Palm Canyon Drive
Borrego Springs, California 92004

We have audited the accompanying financial statements of Borrego Water District, which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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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, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 38 to 40 as identified in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 an opinion on the financial statements of Borrego Water District. The introductory section, and schedules of assessed valuation are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and schedule of assessed valuation sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Leaf & Cole LLP

San Diego, California
January 12, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of Borrego Water District (District) provides an overview of the District's financial activities for the years ended June 30, 2020 and 2019. Please read it in conjunction with the District's financial statements which begin on page 10.

Financial Statements

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

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

The statements of net position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the net difference reported as net position. Net position may be displayed in three categories:

- Net Investment in Capital Assets
- Restricted Net Position
- Unrestricted

The statements of net position provide the basis for computing rate of return, evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statements of revenues, expense and changes in net position present information which shows how the District's net position changed during the year. The financial statements, except for the cash flow statements are prepared using the accrual basis of accounting, which means that revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of cash receipts or payments. The statements of revenues, expenses, and changes in net position measure the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The statements of cash flows provide information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Noncapital financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position because the statement accounts only for transactions that result in cash receipts or cash disbursements.

Financial Statements (Continued)

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

Other Information

In addition to the financial statements and accompanying notes, the financial statements also present certain required supplementary information, which follows the notes to the financial statements. This other information includes pension funding schedules.

Financial Highlights

During the fiscal year ended June 30, 2020 and 2019 , the following events impacted, or have the potential to impact, the finances of the District.

- During FY 2020, the District received $267,602.50 from the California Department of Water Resources (DWR) Proposition One Severely Disadvantaged Community (SDAC) grant for Sustainable Groundwater Management Act (SDAC) Groundwater Sustainability Plan (GSP) development and $21,775.50 from the Borrego Valley Endowment Fund (BVEF) for the air quality monitoring program with the University of California, Irvine.

- On June 9, 2020, due to the COVID-19 public health emergency, the District's Board of Directors delayed Proposition 218 compliant rate increases for FY 2020 - 2021 that include: sewer revenue increases for FY 2021 of approximately four percent; an increase in base rates for all water service customer classes and meter sizes of six percent; and increase in residential water commodity rates for Tier-1 (less than 7 HCF usage for that month) and Tier-2 (greater than 7 HCF usage for that month) and in non-residential rates (water fee, power fee and groundwater management fee) of approximately six percent. The Board reserved the right to impose such approved rate increases at a later date, depending on COVID-19 public health emergency and the District's financial requirements.

- The District's Board approved a budget for fiscal year 2021 that included sewer rate changes that will result in an approximate revenue increase of 1.5% for sewer service charges; an increase of 2% for water base rates; and an increase of 2% for water commodity rates over the fiscal year 2020 rates in effect. The new rates are effective January 1, 2021 and will be reflected initially in customers' February 2021 billings.

- Total operating revenues increased $34,330. Increases in grant income offset by decreases in water sales resulting from a one-time payment received in the prior year under the Spare Capacity Lease Agreement.

- Total operating expenses increased $411,560 as a result of fewer salaries being capitalized, higher pension costs due to actuarial adjustments, additional administrative costs related to the groundwater basin under the stipulated agreement as well as the cost of the Club Circle sewer inspection. (Notes and details can be found on page 6)

- Non-operating expenses were less than non-operating revenues as watermaster reimbursements, property taxes and investment income exceeds interest expense.

Financial Highlights (Continued)

- Cash and cash equivalents decreased to $7,882,456 at June 30, 2020 from $9,795,605 at June 30, 2019. Proceeds from the Installment Sale agreement are drawn down as needed to fund capital projects. Bond proceeds of $1,986,766 to fund future capital projects remains on-hand at June 30, 2020 down from $4,641,507 at June 30, 2019.

- Capital assets increased to $17,903,777 at June 30, 2020 from $16,346,850 at June 30, 2019, which included improvements to Production Well #1 and Well #12 and five other wells.

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

Financial Analysis of the District

Net Position

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

	2020	2019	Dollar Change	Percentage Change
Assets:				
Cash and cash equivalents	$ 7,882,456	$ 9,795,605	$ (1,913,149)	(19.53)%
Capital assets	17,903,777	16,346,850	1,556,927	9.52%
Other assets	879,603	716,521	163,082	22.76%
Total Assets	26,665,836	26,858,976	(193,140)	(.72)%
Deferred Outflows of Resources	400,047	416,679	(16,632)	7.73%
Liabilities:				
Current liabilities	1,089,728	1,616,208	(526,480)	(32.58)%
Noncurrent liabilities	7,792,745	8,382,305	(589,560)	(7.03)%
Total Liabilities	8,882,473	9,998,513	(1,116,040)	(11.16)%
Deferred Inflows of Resources	38,168	34,862	3,306	35.21%
Net Position:				
Net investment in capital assets	12,537,469	13,030,057	(492,588)	(3.78)%
Unrestricted	5,607,773	4,212,223	1,395,550	33.13%
Total Net Position	$ 18,145,242	$ 17,242,280	$ 902,962	5.24%

From the table above, net position increased by $902,962 from fiscal year 2019 to 2020. Net investment in capital assets decreased $492,588. As construction funds are spent more of the long-term debt is allocated to net investment in capital assets which when combined with depreciation expense exceeded the amount spent on capital assets.

Revenues, Expenses and Change in Net Position

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

	2020	2019	Dollar Change	Percentage Change
Operating Revenues:				
Water sales	$ 3,481,437	$ 3,703,309	$ (221,872)	(6.00)%
Sewer service charges	637,067	630,595	6,472	1.03%
Availability charges	240,406	239,844	562	.23%
Watermaster reimbursements	178,385	-	178,385	100%
Other income	3,574	43,785	(40,211)	(91.84)%
Total Operating Revenues	4,540,869	4,617,533	(76,664)	(1.67)%
Operating Expenses:				
Water operations	1,603,282	1,445,321	157,961	10.93%
General and administrative	686,552	559,225	127,327	22.77%
Depreciation	648,226	643,648	4,578	.71%
Sewer operations	480,602	377,597	103,005	27.28%
Pumping	332,380	309,721	22,659	7.32%
Treatment	21,020	24,990	(3,970)	(15.89)%
Total Operating Expenses	3,772,062	3,360,502	411,560	12.25%
Operating Income	768,807	1,257,031	(488,224)	(38.84)%
Nonoperating Revenues (Expenses):				
Nonoperating revenues	146,834	148,912	(2,078)	(1.40)%
Nonoperating expenses	(308,890)	(468,299)	159,409	34.04%
Nonoperating Revenues (Expenses), Net	(162,056)	(319,387)	157,331	49.26%
Income Before Contributions	606,751	937,644	(330,893)	(35.29)%
Capital Contributions	296,211	-	296,211	100%
Change in Net Position	902,962	937,644	(34,682)	(3.70)%
Net Position at Beginning of Year	17,242,280	16,304,636	937,644	5.75%
Net Position at End of Year	$ 18,145,242	$ 17,242,280	$ 902,962	5.24%

A closer examination of the source of changes in net position reveals that the District's operating revenues decreased by $76,664 in fiscal year 2020. Watermaster reimbursements received for the first time were offset by decreases in water sales. One-time payments received in the prior year under the Spare Capacity Lease Agreement were not replaced in the current year. Nonoperating expenses, decreased $159,409 due to a decrease in interest expense (including issuance costs incurred in the prior year). Operating expenses, exclusive of depreciation increased $406,982 in fiscal year 2020 due to higher costs of labor and benefits, sewer inspection cost and administrative costs under the Stipulated Agreement.

Capital Assets

Capital assets consist of the following at June 30:

	2020	2019	Dollar Change	Percentage Change
Land	$ 1,013,650	$ 1,013,650	$ -	0.00%
Flood control facilities	4,287,340	4,287,340	-	0.00%
Sewer facilities	6,459,962	6,459,962	-	0.00%
Water facilities	14,105,276	11,621,512	2,483,764	21.37%
General facilities	1,006,881	1,006,881	-	0.00%
Telemetry system	46,459	46,459	-	0.00%
Equipment and furniture	550,853	550,853	-	0.00%
Vehicles	675,446	715,320	(39,874)	(5.57)%
Construction in progress	1,770,555	2,038,366	(267,811)	(13.14)%
Fallowed water credits	942,850	953,650	(10,800)	(1.13)%
Water rights - ID #4	185,000	185,000	-	0.00%
Total Assets	31,044,272	28,878,993	2,165,279	7.50%
Less: Accumulated depreciation	(13,140,495)	(12,532,143)	(608,352)	4.85%
Net Capital Assets	$ 17,903,777	$ 16,346,850	$ 1,556,927	9.52%

The net additions to capital assets for fiscal year 2020 totaled $1,556,927. Significant capital asset additions include improvements to Well #1 to Well #12 and five other wells.

Long-Term Debt

The following is a summary of long-term debt at June 30:

	2020	2019	Dollar Change	Percentage Change
Installment Purchase Agreement	$ 4,930,000	$ 5,235,000	$ (305,000)	(5.83)%
Promissory Note 2018A	1,915,000	2,096,000	(181,000)	(8.64)%
Promissory Note 2018B	634,875	746,619	(111,744)	(14.97)%
Total Long-Term Debt	$ 7,479,875	$ 8,077,619	$ (597,744)	(7.40)%

The District decreased its debt outstanding by $597,744 for fiscal year 2020 by making principal payments on all of its long-term debts.

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 2020 - 2021 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 2020 - 2021. The budget has been structured to contain costs, but at the same time, contiue the District's philosophy of providing the highest levels of service and continue efforts towards securing a sustainable water supply for the community.

On November 24, 2020, the District's Board of Directors approved Proposition 218 compliant rate increases for FY 2020 - 2021 that include: sewer revenue increases for FY 2021 of approximately four percent; an increase in base rates for all water service customer classes and meter sizes of six percent; and an increase in residential water commodity rates for Tier-1 (less than 7 HCF usage for that month) and Tier-2 (greater than 7 HCF usage for that month) and in non-residential rates (water fee, power fee and groundwater management fee) of approximately six percent. Half of these rate increases will go into effect on January 1, 2021 and the remaining half will go into effect on April 1, 2021. The new rates will be reflected initially in customers' February 2021 and May 2021 billings.

On November 24, 2020, the District's Board of Directors approved a revised FY 2021 budget that anticipates Capital Improvement Program (CIP) project's spending of approximately $23,000,000 through FY 2028-29. The Board has engaged the District's financial advisors to develop a financing plan and the District's municipal advisors to conduct a Cost of Service study to determine the feasibility and funding plan for these necessary CIP projects.

Fiscal Year 2020 Actual vs. Fiscal Year 2021 Budget

			Variance	
	2021 Budget	2020 Actual	Dollar	Percentage
Revenues:				
Operating revenue	$ 4,256,071	$ 4,540,869	$ (284,798)	(6.27)%
Nonoperating revenue	131,000	146,834	(15,834)	(10.78)%
Capital contributions	-	296,211	(296,211)	(100.00)%
Total Revenue	4,387,071	4,983,914	(596,843)	(11.98)%
Expenses:				
Operating expenses	2,985,837	3,772,062	(786,225)	(20.84)%
Non-operating expenses	267,697	308,890	(41,193)	(13.34)%
Total Expenses	3,253,534	4,080,952	(827,418)	(20.28)%
Change in Net Position	$ 1,133,537	$ 902,962	$ 230,575	25.54%

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.

Economic Factors and Future Year's Budget and Rates (Continued)

The District's Board has been in negotiations with other pumpers of the Borrego Springs Subbasin ("Basin") through December 2019 to apportion water rights through Judgment of the Basin. The Stipulated Judgment will define Basin water rights for each pumper producing two acre feet or more in the Basin and impose a "physical solution" regarding Basin management including use of Basin storage space, overseen by the Superior Court. Under the Sustainable Groundwater Management Act (SGMA), a Stipulated Judgment can serve as an "alternative" to a Groundwater Sustainability Plan (GSP) mandated by SGMA. Pending judicial approval of the Stipulated Judgment, the District will recover approximately $300,000 in GSP development costs, have an obligation to pay along with other pumpers approximately $40/acre-foot annually for extractions from the Basin, and likely obtain some amount of supplemental water supply to meet municipal needs beginning in approximately five years. The Agreement has been approved by the Board of Directors and the major pumpers in the Borrego Valley, and is pending judicial approval.

Contacting the District's Financial Manager

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

BORREGO WATER DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Current Assets: (Notes 1 and 2)		
Cash and cash equivalents	$ 5,854,390	$ 5,140,398
Accounts receivable - Water and sewer, net	608,928	598,255
Accounts receivable - Watermaster reimbursements	111,200	-
Accrued interest receivable	7,465	-
Property tax receivable	3,569	-
Inventory	119,581	112,302
Prepaid expenses	28,860	5,964
Total Current Assets	6,733,993	5,856,919
Noncurrent Assets: (Notes 1, 2, 3 and 4)		
Restricted Assets:		
Cash and cash equivalents	2,028,066	4,655,207
Total Restricted Assets	2,028,066	4,655,207
Capital Assets:		
Nondepreciable capital assets	3,912,055	4,190,666
Depreciable capital assets, net	13,991,722	12,156,184
Total Capital Assets	17,903,777	16,346,850
TOTAL ASSETS	26,665,836	26,858,976
DEFERRED OUTFLOWS OF RESOURCES: (Notes 1 and 6)		
Deferred outflows related to refunding	85,502	105,620
Deferred outflows related to pensions	125,210	148,544
Deferred outflows related to pension contributions	189,335	162,515
Total Deferred Outflows of Resources	400,047	416,679

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

BORREGO WATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2020 AND 2019

	2020	2019
LIABILITIES		
Current Liabilities: (Notes 1 and 5)		
Accounts payable	$ 286,337	$ 850,895
Accrued interest payable	70,639	75,453
Customer deposits	41,300	13,700
Current portion of noncurrent liabilities	691,452	676,160
Total Current Liabilities	1,089,728	1,616,208
Noncurrent Liabilities: (Notes 1, 5 and 6)		
Notes payable, net of current portion	6,856,337	7,479,875
Compensated absences	45,276	52,277
Net pension liability	891,132	850,153
Total Noncurrent Liabilities	7,792,745	8,382,305
Total Liabilities	8,882,473	9,998,513
DEFERRED INFLOWS OF RESOURCES: (Notes 1 and 6)		
Deferred inflows related to pensions	38,168	34,862
Commitments and Contingencies (Notes 6 and 7)		
NET POSITION:		
Net investment in capital assets	12,537,469	13,030,057
Unrestricted	5,607,773	4,212,223
Total Net Position	$ 18,145,242	$ 17,242,280

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

BORREGO WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Operating Revenues:		
Water sales	$ 3,481,437	$ 3,703,309
Sewer service charges	637,067	630,595
Availability charges	240,406	239,844
Watermaster reimbursements	178,385	-
Other income	3,574	43,785
Total Operating Revenues	4,540,869	4,617,533
Operating Expenses:		
Water operations	1,603,282	1,445,321
General and administrative	686,552	559,225
Depreciation	648,226	643,648
Sewer operations	480,602	377,597
Pumping	332,380	309,721
Treatment	21,020	24,990
Total Operating Expenses	3,772,062	3,360,502
Operating Income	768,807	1,257,031
Nonoperating Revenues (Expenses):		
Investment income	76,542	84,856
Property taxes	70,292	62,756
Gain on disposal of capital assets	-	1,300
Interest expense	(308,890)	(468,299)
Total Nonoperating Revenues (Expenses)	(162,056)	(319,387)
Income Before Contributions	606,751	937,644
Capital Contributions	296,211	-
Change in Net Position	902,962	937,644
Net Position at Beginning of Year	17,242,280	16,304,636
NET POSITION AT END OF YEAR	$ 18,145,242	$ 17,242,280

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

BORREGO WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash Flow From Operating Activities:		
Cash received from customers	$ 4,237,037	$ 4,447,226
Cash received from watermaster reimbursements	178,385	
Cash payments to suppliers for goods and services	(1,954,888)	(1,747,309)
Cash payments to employees for services	(1,194,736)	(1,086,974)
Customer deposits	27,600	
Other operating cash receipts	3,574	43,785
Net Cash Provided by Operating Activities	1,296,972	1,656,728
Cash Flows From Noncapital Financing Activities:		
Receipts from property taxes	66,723	62,756
Net Cash Provided by Noncapital financing Activities	66,723	62,756
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(2,750,802)	(1,297,661)
Proceeds from sale of capital assets	-	1,300
District contribution to refunding	-	(32,647)
Proceeds from long-term debt	-	8,743,535
Principal paid on long-term debt	(597,744)	(3,690,422)
Interest paid on long-term debt	(293,586)	(404,955)
Capital contributions	296,211	-
Net Cash (Used in) Provided by Capital and Related Financing Activities	(3,345,921)	3,319,150
Cash Flows From Investing Activities:		
Investment income	69,077	84,856
Net Cash Provided by Investing Activities	69,077	84,856
Net (Decrease) Increase in Cash and Cash Equivalents	(1,913,149)	5,123,490
Cash and Cash Equivalents at Beginning of Year	9,795,605	4,672,115
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 7,882,456	$ 9,795,605

(Continued)

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

BORREGO WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities:		
Operating income	$ 768,807	$ 1,257,031
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation	648,226	643,648
Change in assets and liabilities:		
Accounts receivable - Water and sewer, net	(10,673)	(8,659)
Accounts receivable - Watermaster reimbursements	(111,200)	-
Inventory	(7,279)	2,382
Prepaid expenses	(22,896)	25,863
Deferred outflows related to pension	23,334	82,806
Deferred outflows related to pension contributions	(26,820)	(19,726)
Accounts payable	(18,909)	(119,105)
Customer deposits	27,600	(117,863)
Compensated absences	(17,503)	14,981
Net pension liability	40,979	(61,745)
Deferred inflows related to pensions	3,306	(42,885)
Net Cash Provided by Operating Activities	$ 1,296,972	$ 1,656,728
Cash and Cash Equivalents:		
Financial Statement Classification		
Cash and cash equivalents	$ 5,854,390	$ 5,140,398
Restricted cash and cash equivalents	2,028,066	4,655,207
Total Cash and Cash Equivalents	$ 7,882,456	$ 9,795,605
Supplemental Disclosure of Cash Flow Information		
Capital assets included in increase in accounts payable	$ 189,062	$ 734,711
Amortization of deferred outflows related to refunding	$ 20,118	$ 19,565

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

Note 1 - Organization and Significant Accounting Policies:

Organization

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

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Cod. Sec. 2100 "Defining the Financial Reporting Entity". The District is the primary government unit. Component units are those entities, which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District.

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

Significant Accounting Policies

A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Method of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statements of net position and the statements of revenues, expenses and changes in net position have been prepared using the economic resources measurement focus and the accrual basis of accounting.

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

The District has not elected to apply the option allowed in GASB Cod. Sec. P80.103, "Proprietary Fund Accounting and Financial Reporting" and as a consequence will continue to apply GASB statements and interpretations.

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Estimates

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

Revenue Recognition

The District recognizes revenues from water sales, sewer service charges, availability charges, and other income when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, the District considers fees received from water sales, sewer services and availability charges to be operating revenues. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego.

Accounts Receivable - Watermaster Reimbursement

Pursuant to the State of California adopting the Sustainable Groundwater Management Act (SGMA) in 2014, all parties who pump groundwater from the Borrego Springs Groundwater Subbasin, entered into an agreement (Settlement Agreement) that establishes a physical solution to bring sustainability to the Critically Over-drafted Subbasin. In accordance with the Settlement Agreement, the signing parties agreed to share costs associated with preparation of a Groundwater Sustainability Plan (GSP). The majority of the costs associated with the Settlement Agreement are reimbursed thru the signing parties. The District recognized watermaster reimbursement revenue totaling $178,385 and $-0- for the years ended June 30, 2020 and 2019, respectively. Accounts receivable - watermaster reimbursement totaled $111,200 and $-0- at June 30, 2020 and 2019, respectively.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. The allowance for doubtful accounts receivable totaled $153,686 and $113,828 at June 30, 2020 and 2019 .

Taxes and Assessments

Property taxes and assessments are billed by the County of San Diego to property owners. The District's property tax calendar for the fiscal year ended June 30, 2020 and 2019, was as follows:

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

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Taxes and Assessments - (Continued)

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

Inventory

Inventory consists primarily of materials used in the construction and maintenance of capital assets and is valued average cost.

Capital Assets

Capital assets purchased or acquired with a cost exceeding $5,000 and an estimated useful life more than one year are reported at historical cost. Donated capital assets, donated works of art, and similar items, and capital assets received in service concession agreements are reported at acquisition value. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Upon sale or disposition of property and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings. Depreciation is calculated on the straight-line method over the following estimated useful lives:

Flood control facilities	100 years
Sewer facilities	7 - 50 years
Water facilities	20 - 50 years
General facilities	20 - 50 years
Telemetry system	5 - 6 years
Equipment and furniture	5 - 20 years
Vehicles	5 - 40 years

Depreciation aggregated $648,226 and $643,648 for the years ended June 30, 2020 and 2019, respectively.

Amortization

The deferred amount on refunding is being amortized on the straight-line method over the remaining life of the related debt. Amortization of the deferred amount on refunding totaled $20,118 and $19,565 for the years ended June 30, 2020 and 2019, respectively and is included in interest expense.

Compensated Absences

Accumulated and unpaid vacation and sick leave totaling $113,190 and $130,693 is accrued when incurred and included in current and noncurrent liabilities at June 30, 2020 and 2019, respectively.

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined as a consumption of net assets by the District that is applicable to a future period and an acquisition of net assets by the District that is applicable to a future reporting period respectively. Deferred outflows of resources include a deferred amount on refunding. Deferred outflows of resources and deferred inflows of resources are more fully described in Note 6.

Risk Management

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

At June 30, 2020, the District participated in the self-insurance programs of the Authority as follows:

Property Loss - Provides for full value replacement of real and personal property owned by the District in the event of a loss. Actual cash value on licensed vehicles, mobile equipment and Hypalon reservoir covers. The JPIA pools for the first $100,000 and has purchased excess coverage.

General and Auto Liability - Insured up to $60 million per occurrence; the Authority is self-insured up to $500,000 and excess insurance coverage has been purchased. The general and auto liability program has no deductible.

Public Officials' Liability - Insured up to $60 million per occurrence; the Authority is self-insured up to $500,000 and excess insurance coverage has been purchased.

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

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

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

The District pays annual premiums for this coverage. They are subject to retrospective adjustments based on claims experienced. The nature and amounts of the adjustments cannot be estimated and are charged to expense as invoiced. The District's insurance expense totaled $61,770 and $55,578 for the years ended June 30, 2020 and 2019 . There were no instances in the past three years where a settlement exceeded the District's coverage.

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Pensions

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

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Measurement Period	June 30, 2018 to June 30, 2019

Fair Value Measurements

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

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

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the investment.

The District's statements of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in the California Local Agency Investment Fund (LAIF) are considered Level 2 assets and are reported at the fair value of the underlying assets as provided LAIF.

Economic Dependency

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

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 12, 2021, the date the financial statements were available to be issued.

Reclassification

The District has reclassified certain prior year information to conform with the current year presentation.

Note 2 - Cash and Investments:

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

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

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

Note 2 - Cash and Investments: (Continued)

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

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

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

	2020	2019
	Maturity in Years	Maturity in Years
	One Year or Less	One Year or Less
Cash on hand	$ 354	$ 107
California Local Agency Investment Fund (LAIF)	2,045,961	22,056
Deposits with financial institutions	5,836,141	9,773,442
Total Cash and Investments	$ 7,882,456	$ 9,795,605
Financial Statement Classification:		
Cash and cash equivalents	$ 5,854,390	$ 5,140,398
Cash and cash equivalents - Restricted	2,028,066	4,655,207
Total Cash and Investments	$ 7,882,456	$ 9,795,605

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided in the previous table that shows the distribution of the District's investments by maturity at June 30, 2020 and 2019 .

Note 2 - Cash and Investments: (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year for each investment type.

	Rating as of Year End Standard & Poor's
California Local Agency Investment Fund (LAIF)	Not Rated

Concentration of Credit Risk

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

The investment policy of the District contains limits on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code as described below. The District holds no investments in any one issuer (other than U.S. Treasure obligations, mutual. funds, and external investment pools) that represent 5% or more of total District investments at June 30, 2020 and 2019.

Investment Type	Maximum Percentage of Portfolio
California Local Agency Investment Fund	98%
FDIC Insured Institutions (C.D.'s and Savings Accounts)	95%
U.S. Government Bills, Notes, Bonds, and Overnight Money Markets Funds	20%
Certificate of Deposit, Account Registry Services	95%

Custodial Credit Risk

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

Note 2 - Cash and Investments: (Continued)

Custodial Credit Risk (Continued)

At June 30, 2020 and 2019, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Investment in State Investment Pool

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

The statements of cash flows have been prepared by considering all investment instruments purchased with a maturity of three months or less to be cash equivalents. Following is a detail at June 30:

	2020	2019
Deposits with financial institutions	$ 5,836,141	$ 9,773,442
California Local Agency Investment Fund (LAIF)	2,045,961	22,056
Cash on hand	354	107
Total	$ 7,882,456	$ 9,795,605

Note 3 - Restricted Assets:

Restricted assets were provided by, and are to be used for the following at June 30:

Funding Source	Use	2020	2019
Bond proceeds and interest earnings	Capital facilities	$ 1,986,766	$ 4,641,507
Deposits	Deposits	41,300	13,700
		$ 2,028,066	$ 4,655,207

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as necessary.

Note 4 - Capital Assets:

Capital assets consist of the following at June 30:

	2020			
	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020
Capital Assets Not Being Depreciated:				
Land	$ 1,013,650	$ -	$ -	$ 1,013,650
Construction in progress	2,038,366	2,311,085	(2,578,896)	1,770,555
Fallowed water credits	953,650	-	(10,800)	942,850
Water rights - ID No. 4	185,000	-	-	185,000
Total Capital Assets Not Being Depreciated	$ 4,190,666	$ 2,311,085	$ (2,589,696)	$ 3,912,055
Capital Assets Being Depreciated:				
Flood control facilities	$ 4,287,340	$ -	$ -	$ 4,287,340
Sewer facilities	6,459,962	-	-	6,459,962
Water facilities	11,621,512	2,483,764	-	14,105,276
General facilities	1,006,881	-	-	1,006,881
Telemetry system	46,459	-	-	46,459
Equipment and furniture	550,853	-	-	550,853
Vehicles	715,320	-	(39,874)	675,446
Total Capital Assets Being Depreciated	24,688,327	2,483,764	(39,874)	27,132,217
Less: Accumulated depreciation	(12,532,143)	(648,226)	39,874	(13,140,495)
Net Capital Assets Being Depreciated	12,156,184	1,835,538	-	13,991,722
Net Capital Assets	$ 16,346,850	$ 4,146,623	$ (2,589,696)	$ 17,903,777

	2019			
	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019
Capital Assets Not Being Depreciated:				
Land	$ 1,013,650	$ -	$ -	$ 1,013,650
Construction in progress	156,319	1,917,488	(35,441)	2,038,366
Fallowed water credits	953,650	-	-	953,650
Water rights - ID No. 4	185,000	-	-	185,000
Total Capital Assets Not Being Depreciated	$ 2,308,619	$ 1,917,488	$ (35,441)	$ 4,190,666
Capital Assets Being Depreciated:				
Flood control facilities	$ 4,287,340	$ -	$ -	$ 4,287,340
Sewer facilities	6,459,962	-	-	6,459,962
Water facilities	11,621,512	-	-	11,621,512
General facilities	1,006,881	-	-	1,006,881
Telemetry system	46,459	-	-	46,459
Equipment and furniture	539,063	11,790	-	550,853
Vehicles	594,050	138,535	(17,265)	715,320
Total Capital Assets Being Depreciated	24,555,267	150,325	(17,265)	24,688,327
Less: Accumulated depreciation	(11,905,760)	(643,648)	17,265	(12,532,143)
Net Capital Assets Being Depreciated	12,649,507	(493,323)	-	12,156,184
Net Capital Assets	$ 14,958,126	$ 1,424,165	$ (35,441)	$ 16,346,850

Note 5 - Noncurrent Liabilities:

Noncurrent liabilities consist of the following at June 30:

	2020				
	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020	Current Portion
Notes Payable:					
Installment Purchase Agreement	$ 5,235,000	$ -	$ (305,000)	$ 4,930,000	$ 317,000
Promissory Note 2018A	2,096,000	-	(181,000)	1,915,000	190,000
Promissory Note 2018B	746,619	-	(111,744)	634,875	116,538
Total Notes Payable	$ 8,077,619	$ -	$ (597,744)	$ 7,479,875	$ 623,538
Other Noncurrent Liabilities:					
Accrued Compensated Absences	$ 130,693	$ 113,190	$ (130,693)	$ 113,190	$ 67,914
Net Pension Liability	850,153	230,134	(189,155)	891,132	-
Total Other Long-Term Liabilities	$ 980,846	$ 343,324	$ (319,848)	$ 1,004,322	$ 67,914

	2019				
	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019	Current Portion
Notes Payable:					
Refunding Installment Purchase Agreement	$ 2,180,000	$ -	$ (2,180,000)	$ -	$ -
2015 Compass Bank Note	844,506	-	(844,506)	-	-
Installment Purchase Agreement	-	5,586,000	(351,000)	5,235,000	305,000
Promissory Note 2018A	-	2,294,000	(198,000)	2,096,000	181,000
Promissory Note 2018B	-	863,535	(116,916)	746,619	111,744
Total Notes Payable	$ 3,024,506	$ 8,743,535	$ (3,690,422)	$ 8,077,619	$ 597,744
Other Noncurrent Liabilities:					
Accrued Compensated Absences	$ 115,712	$ 130,693	$ (115,712)	$ 130,693	$ 78,416
Net Pension Liability	911,898	120,965	(182,710)	850,153	-
Total Other Long-Term Liabilities	$ 1,027,610	$ 251,658	$ (298,422)	$ 980,846	$ 78,416

Refunding Installment Purchase

In October, 2008, the District entered into an installment purchase agreement totaling $2,775,000 while concurrently redeeming all of its 1997 Certificates of Participation and 1998 Certificates of Participation. The Borrego Water District Refunding Installment Purchase Agreement was payable in annual principal installments of $25,000 to $245,000 in October each year beginning 2013 through 2028. Interest was payable semi-annually in April and October at an interest rate of 4.5% per annum. The installment payments were a special obligation of the District payable solely from revenues of Improvement District No. 4. During the year ended June 30, 2019, the Refunding Installment Purchase Agreement was fully refunded with the proceeds of Promissory Note 2018A.

Note 5 - Noncurrent Liabilities: (Continued)

2015 Compass Bank Note

In May 2015, the District entered into a 10-year promissory note agreement with Compass Bank in the amount of $1,125,000. Quarterly payments of principal and interest at 4.95% totaled $35,572 and were due from September 2015 through June 2025. The note was secured by a senior pledge of net water system revenues of the District. (Net of Improvement District No. 4 operations). The 2015 Compass Bank Note was further secured by a subordinate pledge of net system revenues of the District's Improvement District No. 4. During the year ended June 30, 2019, the Compass Bank Note was fully refunded with the proceeds of Promissory Note 2018B.

Although the refunding of both the 2008 Refunding Installment Purchase Agreement and the 2015 Compass Bank Note, resulted in a deferred amount on refunding of $125,185, by refunding the Refunding Installment Purchase Agreement, the Corporation in effect reduced the aggregate debt service payments by approximately $45,000 over the next ten years and obtained an economic gain (difference between the present value of the old debt and the new debt service payments) of $37,944 and by refunding the 2015 Compass Bank Note, the Corporation, in effect, reduced the aggregate debt service payments by approximately $19,127 over the next six years and obtained an economic gain of $7,298. The deferred amount on refunding is being amortized over the remaining life of the refunded debt. Amortization expense totaled $20,118 and $19,565 for the years ended June 30, 2020 and 2019, respectively and is included in interest expense. The deferred amount on refunding was $85,502 and $105,620 at June 30, 2020 and 2019.

Installment Purchase Agreement

In July 2018, the District entered into an Installment Purchase Agreement with the Borrego Water District Public Facilities Corporation ("Corporation"). The Corporation provided $5,586,000 for the purpose of financing costs of the District's project as defined in the Agreement. The Installment Purchase Agreement is payable in semi-annual installments of principal plus interest of 3.825% on or before April 1 and October 1 each year commencing October 1, 2018 through and including October 1, 2038. Payments under the Installment Purchase Agreement are secured by a lien on and pledge of net revenues. The District has covenanted to fix, prescribe, revise, and collect rates, fees, and charges for services and facilities sufficient to yield estimated net revenues equal to 125% of the aggregate amount of debt service on all parity obligations payable from net revenues coming due and payable during such fiscal year. The District had a debt service ratio of 2.09:1 and 2.25:1 for the years ended June 30, 2020 and 2019, respectively. The Installment Purchase Agreement had an outstanding principal balance of $4,930,000 and $5,235,000 and accrued interest payable of $47,935 and $50,060 at June 30, 2020 and 2019, respectively.

Note 5 - Noncurrent Liabilities: (Continued)

Promissory Note 2018A

In July 2018, the District entered into a promissory note with Compass Bank in the amount of $2,294,000 for the purpose of defeasing and prepaying the Borrego Water District Refunding Installment Purchase Agreement. The promissory note is payable in semi-annual payments of principal and interest at 3.35% commencing October 1, 2018 through and including October 1, 2028. Payments under the promissory note are secured by a lien on and pledge of net revenues. The District has covenanted to fix, prescribe, revise, and collect rates, fees, and charges for services and facilities sufficient to yield estimated net revenues equal to 125% of the aggregate amount of debt service on all parity obligations payable from net revenues coming due and payable during such fiscal year. The District had a debt service ratio of 2.09:1 and 2.41:1 for the years ended June 30, 2020 and 2019, respectively. The Promissory Note 2018A had an outstanding principal balance of $1,915,000 and $2,096,000 and accrued interest payable of $16,038 and $17,554 at June 30, 2020 and 2019, respectively.

Promissory Note 2018B

In July 2018, the District entered into a promissory note with Compass Bank in the amount of $863,535 for the purpose of defeasing and prepaying the 2015 Compass Bank Note. The promissory note is payable in semi-annual payments of principal and interest at 4.20% commencing October 1, 2018 through and including October 1, 2024. Payments under the promissory note are secured by a lien on and pledge of net revenues. The District has covenanted to fix, prescribe, revise, and collect rates, fees, and charges for services and facilities sufficient to yield estimated net revenues equal to 125% of the aggregate amount of debt service on all parity obligations payable from net revenues coming due and payable during such fiscal year. The District had a debt service ratio of 2.09:1 and 2.41:1 for the years ended June 30, 2020 and 2019, respectively. The Promissory Note 2018B had an outstanding principal balance of $634,875 and $746,619 and accrued interest payable of $6,666 and $7,839 at June 30, 2020 and 2019, respectively.

Debt service requirements on notes payable are as follows:

Years Ended June 30	Principal	Interest
2021	$ 623,538	$ 267,697
2022	496,537	246,740
2023	511,751	227,914
2024	537,189	208,329
2025	553,860	187,956
2026-2030	2,059,000	691,243
2031-2035	1,383,000	387,759
2036-2039	1,315,000	103,026
Total	$ 7,479,875	$ 2,320,664

Note 6 - Defined Benefit Pension Plan:

General Information About the Pension Plan

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

Benefits Provided - The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Miscellaneous plan members with 5 years of service are eligible to retire at age 50 with statutory reduced benefits. PEPRA Miscellaneous members with 5 years of service are eligible to retire at age 52 with statutory reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is the Basic Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees Retirement Law per contract. The Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Miscellaneous Prior to January 1, 2013	PEPRA On or After January 1, 2013
Benefit formula	3.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.00%	6.985%
Required employer contribution rates	13.692%	6.985%

In addition to the contribution rates above, the District was also required to make payments of $102,385 and $87,501 toward its unfunded actuarial liability during the years ended June 30, 2020 and 2019, respectively .

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

Note 6 - Defined Benefit Pension Plan: (Continued)

General Information About the Pension Plan (Continued)

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 process. The Plans 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.

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

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

	Proportionate Share of Net Pension Liability 2020	Proportionate Share of Net Pension Liability 2019
Miscellaneous Risk Pool	$ 891,132	$ 850,153

The District's net pension liability for each risk pool is measured as the proportionate share of each risk pool's net pension liability. GASB 68 indicates that to the extent different contribution rates are assessed based on separate relationships that constitute the collective net pension liability, the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those relationships. The allocation method used by CalPERS to determine each employer's proportionate share reflects those relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer's rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

The District's proportionate share of the net pension liability as of June 30, 2018, the valuation date, was calculated as follows:

- In determining an employer's proportionate share, the employer rate plans included in the Plan were assigned to the miscellaneous risk pool. Estimates of the total pension liability and the fiduciary net position were first determined for the individual rate plans as of the valuation date June 30, 2018.

- Each employer rate plan's fiduciary net position was subtracted from its total pension liability to obtain its net pension liability as of the valuation date. The District's proportionate share percentage at the valuation date was calculated by dividing the District's net pension liability for each of its employer rate plans by the net pension liability of the risk pool as of the valuation date.

Note 6 - Defined Benefit Pension Plan: (Continued)

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

The District's proportionate share of the net pension liability as of June 30, 2019, the measurement date, was calculated as follows:

- The risk pool's total pension liability was computed at the measurement date, June 30, 2019, by applying standard actuarial roll-forward methods to the total pension liability amounts as of the valuation date. The fiduciary net position for the risk pool at the measurement date was determined by CalPERS' Financial Office. The net pension liability for the risk pool at June 30, 2019, was computed by subtracting the respective risk pool's fiduciary net position from its total pension liability.

- The individual employer risk pool's proportionate share percentage of the total pension liability and fiduciary net position as of June 30, 2019, was calculated by applying the District's proportionate share percentage as of the valuation date (described above) to the total pension liability and fiduciary net position as of June 30, 2019, to obtain the total pension liability and fiduciary net position as of June 30, 2019. The fiduciary net position was then subtracted from total pension liability to obtain the net pension liability as of the measurement date.

The District's proportionate share percentage of the net pension liability as of June 30, 2018 and June 30, 2019 was as follows:

	Miscellaneous Risk Pool
Proportion at measurement date - June 30, 2018	0.022210%
Proportion at measurement date -June 30, 2019	0.023510%
Change - Increase (Decrease)	0.001300%

For the years ended June 30, 2020 and 2019, the District recognized a pension expense of $230,134 and $120,965, respectively for the Plan. As of June 30, 2020 and 2019, the District reports deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 189,335	$ -	$ 162,515	$ -
Differences between actual contributions made and proportionate share of contributions	40,683	-	49,655	-
Differences between expected and actual experience	57,097	-	21,519	-
Changes of assumptions	27,430	-	73,167	-
Net difference between projected and actual earnings on pension plan investments	-	15,580	4,203	-
Adjustment due to difference in proportions	-	22,588	-	34,862
Total	$ 314,545	$ 38,168	$ 311,059	$ 34,862

Note 6 - Defined Benefit Pension Plan: (Continued)

Allocation of Net Pension Liability and Pension Expense to Individual Employers (Continued)

The $189,335 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

Measurement Period Ended June 30	Deferred Outflows/(Inflows) of Resources
2021	$ 75,415
2022	(1,895)
2023	10,370
2024	3,152
Total	$ 87,042

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increases	Varies by Age and Length of Service
Investment Rate of Return	7.00%
Mortality Rate Table	Derived using CalPERS' Membership Data for all funds

Note 6 - Defined Benefit Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing none of the tested employer rate plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, *GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2019 based on June 30, 2018 Valuations,* that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.00% 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 7.15%. 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.

In the December 2016 and April 2017 meetings, the Board voted to lower the funding discount rates used for the Public Employee's Benefit Fund (PERF). In making its decision, the CalPERS Board reviewed recommendations from CalPERS team members, external pension and investment consultants, and input from employer and employee stakeholder groups. A lowered funding discount rate for the PERF will be phased in over a three-year period beginning July 1, 2018 for public agencies.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimated 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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 11 years) and the long-term (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 the Plan. 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.

Note 6 - Defined Benefit Pension Plan: (Continued)

Discount Rate (Continued)

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

Asset Class	Asset Allocation	Real Return Years 1 - 10	Real Return Years 11+
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0	1.00	2.62
Inflation Assets	0.0	.77	1.8
Private Equity	8.0	6.30	7.23
Real Estate	13.0	3.75	4.93
Liquidity	1.0	0.00	(0.92)
	100.00%		

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

The following presents the District's proportionate share of the net pension liability of the risk pool as of the measurement date, calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Plan's Net Pension Liability	$ 1,459,822	$ 891,132	$ 421,718

Note 7 - Commitments and Contingencies:

Contracts

The Borrego Water District has entered into various contracts for the purchase of material and construction of capital assets. The amounts contracted are based on the contractor's estimated cost of construction. At June 30, 2020 and 2019, the total unpaid amount on these contracts is approximately $100,092 and $731,167, respectively.

Litigation

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

Note 7 - Commitments and Contingencies: (Continued)

Operating Leases

The District has entered into an operating lease for office equipment with a lease term in excess of one year. This agreement contains a purchase option. The agreement is a non-cancelable lease. Rent expense totaled $4,524 and $4,524 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments are as follows:

Years Ended June 30	Lease Payments
2021	$ 377

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

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

These financings were accomplished through the authorization of special tax bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 adopted by the Board of Directors of the Borrego Water District acting as the legislative body of the Community Facilities Districts. The bonds are only payable from certain proceeds of an annual special tax to be levied and collected from property located within the Community Facilities Districts and from certain bond proceeds pledged in the issuances. If the special taxes are not paid when due, the only source of funds to repay the bonds are cash deposits or letters of credit provided by property owners, amounts held in the bond reserve funds, or proceeds, if any, from foreclosure sales of land within the Community Facilities Districts following a delinquency in a special tax payment. Neither the faith nor credit nor the taxing power of the Borrego Water District, the State of California, or any other political subdivision thereof is pledged to the payment of these bonds. Therefore, the Community Facilities Districts are considered separate reporting entities. The following special tax bonds were outstanding at June 30:

	2020	2019
Series 2017A	$ 985,000	$ 1,045,000
Series 2017B	$ 10,300,000	$ 10,300,000

Note 7 - Commitments and Contingencies: (Continued)

Coronavirus Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. On March 19, 2020, the Governor of California declared a health emergency and issued an order to close all nonessential businesses until further notice. For the health and safety of its customers and staff, the District closed its office to the public and implemented extra workplace precautions and conducted pre-scheduled customer assistance appointments as necessary. The potential impacts to the District include disruptions or restrictions on employees' ability to work and limitations on in-person services. In addition, there has been significant volatility in the financial markets, which may have an impact on the District's ability to borrow funds. Changes to the operating environment may also be impacted, and may have an impact on operating costs. The future effects of these issues are unknown.

Note 8 - New Governmental Accounting Standards:

GASB No. 83

In November 2016, the Governmental Accounting Standards Board issued Statement No. 83 " Certain Asset Retirement Obligations". The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier Application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 84

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84 "Fiduciary Activities". The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier Application is encouraged. The effective date of this pronouncement has been postponed by 12 months by GASB Statement No. 95. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 87

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87 "Leases". The requirements of this Statement were effective for reporting periods beginning after December 15, 2019. The effective date of this pronouncement has been postponed by 18 months by GASB Statement No. 95. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 88

In April 2018, the Governmental Accounting Standards Board issued Statement No. 88 "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements". The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

Note 8 - New Governmental Accounting Standards: (Continued)

GASB No. 89

In June 2018, the Governmental Accounting Standards Board issued Statement No. 89 “Accounting for Interest Cost Incurred before the End of a Construction Period”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The District has elected to implement this pronouncement and has not capitalized any interest cost in the year ended June 30, 2020.

GASB No. 90

In August 2018, the Governmental Accounting Standards Board issued Statement No. 90 “Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The effective date of this pronouncement has been postponed by 12 months by GASB Statement 95. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 91

In May 2019, the Governmental Accounting Standards Board issued Statement No. 91 “Conduit Debt Obligations”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. The effective date of this pronouncement has been postponed by 12 months by GASB Statement 95. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 92

In January 2020, the Governmental Accounting Standards Board issued Statement No. 92 “Omnibus 2020”. The requirements of this statement are effective at various dates up to and including fiscal years and reporting periods beginning after June 15, 2021. The effective date of this pronouncement has been postponed by 12 months by GASB Statement 95. This pronouncement did not and is not expected to have a material effect on the financial statements of the District in the year of implementation.

GASB No. 93

In March 2020, the Governmental Accounting Standards Board issued Statement No. 93 “Replacement of Interbank Offered Rates”. The requirements of this statement are effective at various dates up to and including reporting periods ending after December 31, 2021 The effective date of this pronouncement has been postponed by 12 months by GASB Statement 95. This pronouncement is not expected to have a material effect on the financial statements of the District in the year of implementation.

Note 8 - New Governmental Accounting Standards: (Continued)

GASB No. 94

In March 2020, the Governmental Accounting Standards Board issued Statement No. 94 "Public - Private and Public - Public Partnerships and Availability Payment Arrangements". The requirements of this statement are effective for fiscal years beginning after June 15, 2022. The effective date of this pronouncement has been postponed by 12 months by GASB Statement 95. As used in this pronouncements these Partnerships are an arrangement in which the government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset such as infrastructure or other capital assets for a period of time in an exchange or an exchange-like transaction. The statement also provides guidance on accounting and financial reporting for availability payment arrangements in which the government compensates the operator for services that may include the designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The District has not yet determined the effects of this pronouncement on the financial statements in the year of implementation.

GASB No. 95

In May 2020, the Governmental Accounting Standards Board issued Statement No. 95 "Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing for one year the effective dates of GASB Statements 83, 84, 88 – 93 as well as implementation guides 2018-1, 2019-1 and 2019-2. In addition, the effective dates of GASB Statement 87 and Implementation Guide 2019-3 have been postponed by 18 months.

GASB No. 96

In May 2020, the Governmental Accounting Standards Board issued Statement No. 96 "Subscription-Based Information Technology Arrangements (SBITA's). This Statement (1) defines SBITA's (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset- and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including the implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this statement are effective for fiscal years beginning after June 15, 2022 and all reporting periods thereafter. Earlier application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

BORREGO WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020

SCHEDULES OF PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS *

	Measurement Date June 30, 2019	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015	Measurement Date June 30, 2014
Proportion of the Net Pension Liability	0.022253 %	0.022558 %	0.023133 %	0.009466 %	0.01010 %	0.01123 %
Proportionate Share of the Net Pension Liability	$ 891,132	$ 850,153	$ 911,898	$ 819,059	$ 693,352	$ 699,055
Covered - Payroll - Measurement Period	$ 740,131	$ 698,023	$ 675,819	$ 658,514	$ 671,180	$ 595,422
Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll	120.40 %	121.79 %	134.93 %	124.38 %	103.30 %	117.41 %
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.92 %	77.34 %	74.72 %	73.72 %	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, 2014 as they have minimal cost impact.

Changes in Assumptions - The discount rate was changed from 7.50% in 2015 to 7.65% in 2016 and 2017 and to 7.65% in 2018.

Omitted Years - GASB Statement No 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

BORREGO WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2020

SCHEDULES OF CONTIRBUTIONS TO THE PENSION PLAN
LAST TEN YEARS *

	Fiscal Year 2019 - 2020	Fiscal Year 2018 - 2019	Fiscal Year 2017 - 2018	Fiscal Year 2016 - 2017	Fiscal Year 2015 - 2016	Fiscal Year 2015
Contractually Required Contribution (Actuarially determined)	$ 189,335	$ 162,515	$ 142,789	$ 137,737	$ 138,613	$ 129,138
Contributions in Relation to the Actuarially determined Contribution	(189,355)	(162,515)	(142,789)	(137,737)	(138,613)	(129,138)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll - Fiscal Year	$ 850,749	$ 740,131	$ 698,023	$ 723,125	$ 671,180	$ 595,422
Contributions as a Percentage of Covered Payroll	22.26 %	21.96 %	20.46 %	10.05 %	20.65 %	21.69 %

Notes to Schedule:

Valuation Date:	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013

	2019 - 2020	2018 - 2019	2016 - 2017	2015
Valuation Cost Method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
Asset Valuation Method	Market Value	Market Value	Market Value	Market Value
Discount Rate	7.15%	7.15%	7.65%	7.5%
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%	2.75%	2.75%	2.75%
Payroll Growth	3.00%	3.00%	3.00%	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25%

Omitted Years - GASB Statement No. 68 was implemented during the year ended June 30, 2015, thus information prior to this date was not presented.

BORREGO WATER DISTRICT
SCHEDULES OF ASSESSED VALUATION
FOR THE YEAR ENDED JUNE 30, 2020

The assessed valuation of the District at June 30, 2020 and 2019, is as follows:

	2020	2019
Assessed Valuation:		
Secured property	$ 364,370,749	$ 352,961,472
Total Assessed Valuation	$ 364,370,749	$ 352,961,472