



# OTAY WATER DISTRICT



## Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006

Spring Valley,  
California



# Comprehensive Annual Financial Report

## Fiscal Year Ended June 30, 2006



Prepared by the Finance Department  
Spring Valley, California

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# Introductory





*...Dedicated to Community Service*

2554 SWEETWATER SPRINGS BLVD., SPRING VALLEY, CA 91978-2004  
TELEPHONE: 670-2222, AREA CODE 619 [www.otaywater.gov](http://www.otaywater.gov)



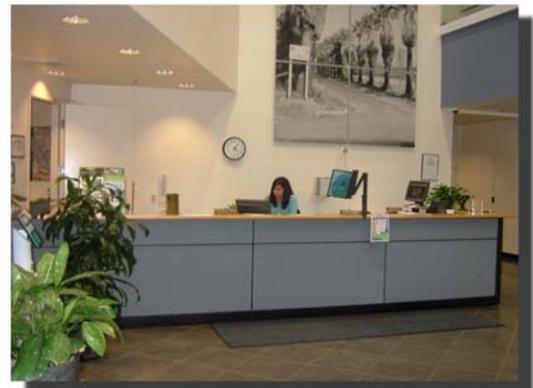
August 10, 2006

Honorable Board of Directors  
Otay Water District

I am pleased to present the Otay Water District's (the "District") Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. In 2006, the District's 50th year of providing quality potable and recycled water, and sewer service, there is an emphasis on new water sources, system reliability, and new maintenance requirements.

This report was prepared by the District's Finance Department following guidelines set forth by the Government Accounting Standards Board (GASB) and generally accepted accounting principles (GAAP). Responsibility for both the accuracy of the data presented, and the completeness and fairness of the presentation, including all disclosures, rests with the District. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner that provides a fair representation of the financial position and results of operation of the District. Included are all disclosures we believe necessary to enhance your understanding of the financial condition of the District. GAAP requires that management provide a narrative introduction, overview and analysis, to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A), which should be read in conjunction with this report. The District's MD&A can be found immediately following the Independent Auditors' Report.

The District's financial statements have been audited by Teaman, Ramirez and Smith Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2006, are free of material misstatement. 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 reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30,

2006, are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

## REPORTING ENTITY

The District is a publicly-owned water and sewer agency, authorized as a California special district in 1956 by the State Legislature under the provisions of the Municipal Water District Act of 1911. Its ordinances, policies, taxes, and rates for service are set by five Directors, elected by voters in their respective divisions, to serve staggered four-year terms on its Governing Board. The District is a "revenue neutral" public agency, meaning that each end-user pays his or her fair share of the District's costs of water acquisition, operation and maintenance, betterment, and renewal and replacement of the public water and sewer facilities.



In 2006, the District celebrates its 50th anniversary. It began on an overcast summer day in 1955 when a plumber, a civil engineer, an attorney, a newspaper publisher, and two owners of large tracts of land gathered for lunch at Christie's Restaurant in Chula Vista. They met to discuss how together they could bring life-giving water to an arid region of southeastern San Diego County. By the end of the day, the group had a common vision, a few thousand dollars in capital, and the

framework for what would later become the Otay Water District. Their vision was realized on January 27, 1956, when the District was authorized by the California Legislature to an entitlement to import water.

Over the next 50 years, the District has grown from a handful of customers and two employees to become an organization operating a network with more than 663 miles of pipelines, 37 reservoirs, a sewer treatment plant, and one of the largest recycled water distribution networks in San Diego County. The character of the service area has also changed from predominantly dry-land farming and cattle ranching, to businesses, high-tech industries, and large master planned communities.

Today, the District provides water service to nearly 46,850 potable and 560 recycled customers within approximately 125 square miles of southeastern San Diego County. All of the potable water delivered by the District is purchased from the San Diego County Water Authority (CWA) who in turn purchases water from the region's water importer, the Metropolitan Water District of Southern California. In Fiscal Year 2007, the District began purchasing raw water from CWA and made an agreement with the City of San Diego to treat the water. By taking raw water through CWA's system there is increased reliability of water supplied to the District. This water is delivered through the Lower Otay Pump Station.

The District also owns and operates a wastewater collection and recycling system to provide public sewer service to approximately 4,570 homes and businesses (or 6,600 Assigned Service Units) within portions of the communities of La Mesa, Rancho San Diego, El Cajon, Jamul, and Spring Valley. Recycled water from the Ralph W. Chapman Water Recycling Facility (RWCWRF) is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The RWCWRF project is capable of reclaiming wastewater at a rate of 1.3 million gallons per day. The District is also in a partnership with the City of San Diego to beneficially reuse an additional six million gallons per day of recycled water from the City's South Bay Water Reclamation Plant (SBWRP).

CURRENT ECONOMIC CONDITIONS AND OUTLOOK

The District's service area is in one of the fastest growing regions in the nation. During the past decade, the population of the service area has nearly doubled. The phenomenal growth is continuing and as of January 2006, it is estimated that the District served 189,000 residents. In just the past four years, the District has added more than 5,000 new customer connections. This is reflected internally as the District's Development Services Department currently approves approximately 70 permits per month, and sold 835 water meters in Fiscal Year 2005-2006. The San Diego Association of Governments (SANDAG), the regional planning agency, estimates the District's rate of growth will continue for a decade or more. The District projects a total customer base of approximately 277,000 people by the year 2020.



BUDGET SUMMARY

For Fiscal Year 2007, the budget totals \$94 million, with operating expenditures of \$59 million and capital expenditures of \$35 million. The District's goal is to provide the most effective and efficient service possible while maintaining affordability of the water supply for the community.

The operating expenditures are derived from three major sectors: water, reclamation, and sewer. Revenues for the water utility in Fiscal Year 2007 are projected to be \$47,616,200, about \$4.2 million (9.7%) greater than Fiscal Year 2006. Water sales are expected to increase as a result of a slowing but continuing growth trend occurring within the District's service area. This growth should add over 870 new customer accounts and increase the District's assets by approximately \$35 million for the year.

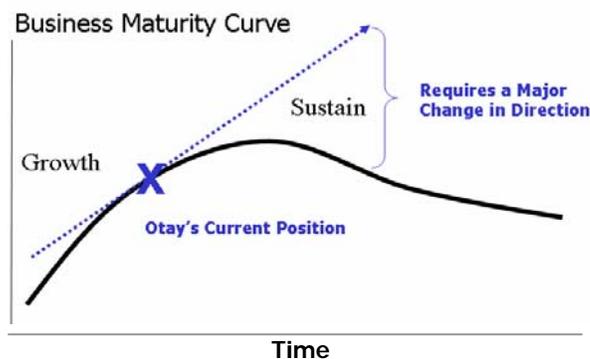
Significant aspects of the Operating Budget are:

- A balanced budget meeting the goals of the Strategic Plan.
- The District has updated a six-year Rate Model to ensure sound financial planning and reserve levels.

- The District implemented rate increases in potable and reclaimed water, and sewer. This included pass-through rate increases from CWA, City of San Diego, and County of San Diego, who raised costs to the water and sewer customers.
- Of San Diego County's 23 water agencies, Otay's water rate is the seventh-lowest and below the county-wide average.
- The District is planning on issuing debt in Fiscal Year 2007 to fund the construction of new facilities, and replacement or enhancement of facilities.
- Includes funding for the six million gallons per day recycled water purchase agreement with the City of San Diego.
- Includes funding for new regulations for air vac, valve maintenance, and the automated meter reading change-out program.
- Expands residential, landscape, and commercial water conservation programs.
- Enhances Storm Water Control Best Management Practices.
- Funds the fourth year of a Five-Year Labor Agreement ending in Fiscal Year 2008.

The projected operating cost for salaries and benefits is \$14.6 million, which is an increase of \$1,149,000 (8.5%) compared to Fiscal Year 2006. The increase in labor is predominately the result of negotiated pay and benefit increases.

Estimated growth of 870 potable and recycled water accounts will bring the new customer count to 47,690 potable and 590 recycled accounts by the end of Fiscal Year 2007 that equates to approximately 74,600 equivalent dwelling units (EDUs). The ultimate population projection of 277,000 will result in an estimated 114,000 EDUs and an average annual water demand of approximately 56 million gallons per day (MGD). To accommodate this growth, the District will need to invest an estimated \$530 million in capital assets through ultimate build-out. The Fiscal Year 2006-07 Capital Budget consists of 90 projects and a budget of \$35 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth.



## STRATEGIC BUSINESS PLAN

To guide operations and planning efforts during this time of sustained growth, in 2001 the District began developing a Strategic Business Plan. This plan was designed to address the unique challenges and opportunities resulting from growth. It would also guide the District as it strives to develop the necessary infrastructure and operational practices to perform its primary business while ensuring quality customer service and competitive rates are maintained.



The first multi-year Strategic Business Plan was adopted by the Board of Directors in 2002. Each year, the Board of Directors reviews and updates the plan. While the first plan guided the District through a period of record growth, the updated plan, using a balanced scorecard method, looks forward to a time when the majority of the requisite physical infrastructure is in place and the District begins to transform from a growth-centric entity to a maintenance-based organization. The District has been very successful managing growth and recognizes that continued success is predicated on developing reliable, long-term, water supplies as well as managing long-term maintenance and replacement of its infrastructure.

One key to addressing the challenges is to capitalize on the significant investment that has been made in implementing integrated information systems. With the Otay Information System in place, the District has focused on business process improvement utilizing best-in-class technology. Other Strategic Business Plan objectives include securing additional water sources, continuing expansion of its potable and recycled water networks, expanding use of recycled water, and continuing efforts to promote conservation.

The vision incorporated in the Strategic Plan calls for: continuing to enhance the District's financial reporting document capabilities; developing an Integrated Water Resources Plan (IRP) including potable, recycled water, and wastewater services; identifying and supporting the development of new water sources such as desalination, agricultural to urban water transfers, groundwater development, and the use of recycled water; and utilizing new technologies to continue streamlining operations to minimize rate increases and to ensure the District's viability through the entire build-out of its customer base.

### Putting the Strategic Business Plan to Work

With the Strategic Business Plan serving as its primary guide, the Board of Directors adopted a balanced Operating Budget and Capital Improvement Program (CIP) for Fiscal Year 2006-2007. The budget is also aligned with the District's long-range financing plan, Rate Model, and financial statements. In conjunction with a Bond refinancing, the credit rating firm Standard and Poor's awarded the Otay Water District an A+ credit rating. Standard and Poor's presented the A+ rating after reviewing the District's financing plan, Rate Model, Strategic Plan, budget, and financial statements.

## Water Resources



The Strategic Plan drives advances in every aspect of District operations. For instance, the Strategic Plan called for updating of the Urban Water Management Plan (UWMP), which was completed in December 2005. The UWMP serves as a long-range planning document for water supply and demand, and provides an overview of the District's water supply and usage, recycled water, and conservation programs. The UWMP works to ensure the District always has the water resources it needs to meet the demands of a growing community.

The need to develop an Integrated Water Resources Plan (IRP) is identified within the Strategic Plan. The mission of the IRP is to find the optimal mix of imported water, local supplies, and conservation efforts to meet projected ultimate supply requirements in a cost-effective manner, while also incorporating environmental impacts, implementation risks, and other factors. The planning objectives are to maintain affordability, meet water quality standards, achieve supply reliability, increase system flexibility, increase supply diversity, and address environmental and institutional constraints. The IRP planning effort will identify and evaluate all potential water resource supply opportunities to arrive at a recommended diverse water supply portfolio. The water supply portfolio will provide a strategic approach and focused direction to be incorporated into the water resources master plan and the Capital Improvement Program for the development of sufficient water supply to meet the planning objectives for long-term sustainability. The water supply alternatives include all potential opportunities such as desalination, groundwater, water transfers, recycled water supply development, and interagency agreements.

## Recycled Water

Included in the UWMP is an agreement with the City of San Diego allowing the District to purchase recycled water from the City's South Bay Reclamation Facility. This contract will deliver, on average, more than six million gallons per day of recycled water to the District's growing population. Recycled water purchased from this facility will be used to irrigate golf courses, parks, open space, road medians, and other commercial processes. Using this mostly untapped resource to address specific demands will result in the District reducing its potable water use by approximately 15%, maximizing the beneficial use of an alternative resource, which also makes millions of



gallons per day of potable water available for higher quality and better purposes. In May 2005, the District awarded a contract for approximately six miles of pipeline connecting the City's reclamation facility to the District's pumping station and reservoir facilities, with construction scheduled to be completed in spring 2007. The District will be receiving \$4 million from Proposition 50 from the State Water Resources Control Board (SWRCB) for partial funding of this project.

### The Future

The Otay Water District continues to use the challenges presented by growth to create new opportunities and new organizational efficiencies. By utilizing and continuing to refine its Strategic Plan, it has captured the Board of Director's vision and united its staff in a common



mission. The organization has achieved a number of significant accomplishments based on its successful adherence to the plan. As a result, the District is poised to successfully continue providing an affordable, safe, and reliable water supply for the people of its service area.

### ACCOUNTING SYSTEM

The Finance Department is responsible for providing financial services to the District, including financial accounting and reporting, payroll and accounts payable, custody and investment of funds, billing and collection of water and wastewater charges, taxes, and other revenues. The District's books and records are maintained on an enterprise basis, as it is the intent of the Board to manage the District's operations as a business, thus matching revenues against costs of providing services. Revenues and expenses are recorded on the accrual basis in the period in which revenue is earned and expenses are incurred.

Otay Water District operates within a system of internal controls established and continually reviewed by management to provide reasonable assurance that assets are adequately safeguarded and transactions are recorded correctly according to District policies and procedures. When establishing or reviewing control, management must consider the cost of the control and the value of the benefit derived from its utilization. Management normally maintains and implements all sensitive controls and those controls whose value adequately exceeds their cost.

### INTERNAL CONTROLS

All internal control evaluations occur within the above framework. Management believes the District's internal controls, procedures, and policies adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

In addition, the District maintains controls to provide for compliance with all finance related legal and contractual provisions. Management believes the activities reported within the presented Comprehensive Annual Financial Report (CAFR) comply with these finance related legal and contractual provisions, including bond covenants and fiduciary responsibilities.

### BUDGETING CONTROLS

The District views the budget as an essential tool for proper financial management. The budget is developed with input from the various department levels of the organization and is adopted prior to the start of each fiscal year. It is designed and presented for the general needs of the District, its staff, and citizens. It is a comprehensive and balanced financial plan that features District services, resources and their allocation, financial policies, and other useful information to allow the users to gain a general understanding of the District's financial status and future. Monthly comparison reports of budget to actual are prepared and distributed to all department heads, with top level information provided to the Board at the monthly Board meeting.

### CASH MANAGEMENT

During the year, available funds were invested in certain eligible securities as required by law and in accordance with its own investment policy adopted by the Board of Directors. The investment objectives of the District in order of priority are: to preserve the capital of the portfolio, to maintain adequate liquidity to meet cash flow requirements, and to obtain a reasonable rate of return without compromising the first two objectives.

### RISK MANAGEMENT

Since 1993 the District has been a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA provides joint protection coverage for losses in excess of District deductibles for workers' compensation coverage. In 2003, the District became a member of the Special District Risk Management Authority (SDRMA), a pool program which provides the District's coverage for property, auto, and liability claims.



During Fiscal Year 2005-2006, the District continued its proactive liability risk management role through careful monitoring of losses and designing and implementing programs to minimize risks and losses. In addition, the District's Safety Committee analyzes workers' compensation issues by monitoring work conditions, and organizing and implementing safety training programs to reduce employee exposure to hazards.

## PENSION PLANS

In addition to participating in Social Security, the District provides a defined benefit pension plan for its employees through the California Public Employees' Retirement System (CalPERS). The District contributes a specified percentage of covered employees' payroll, which is invested by CalPERS. Upon retirement, District employees are entitled to a specified retirement benefit. The plan is more fully described in Note 8 to the Financial Statements.

## OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The District provides other post-employment benefits (OPEB) as a part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes healthcare, as well as other forms of benefits (for example life insurance) when provided separately from a pension plan. Financial reporting of the actuarial accrued liabilities corresponding to all promised benefits associated with past services of District employees is not required until Fiscal Year 2008-2009. Setting the District apart from most state and local government employers, the District designated \$16.7 million which fully funded its net OPEB obligations as of the last actuarial projection dated June 30, 2004. For additional information see Note 9 to the Financial Statements.

## AWARDS AND ACKNOWLEDGMENTS

This year, the District received the State of California's "Flex Your Power" award for its Demand Response Program. Since 2003, the OWD has upgraded pumps, motors, lights, as well as heating and air conditioning equipment to improve efficiency and save energy. Energy savings from these actions save 1.7 million kilowatt-hours of energy each year.

The District also reduced electricity use by cutting demand during peak hours when energy supplies are tight. Through participation in the Flex Your Power Demand Response Program, the District was able to cut its peak demand by 56% through time-of-use metering and off-peak pumping. While participating in the Flex Your Power campaign, the District has cut energy use and produced approximately \$93,000 in annual energy savings. Reducing energy use during peak periods also reduced demand on the state-wide power grid. Across California, the Flex Your Power campaign has reduced electricity demand by more than two million kilowatts, the equivalent capacity of two nuclear power plants.

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Otay Water District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. In addition, the CAFR received the *Outstanding Financial Reporting Award* from the California Society of Municipal Finance Officers (CSMFO). We believe that our current Comprehensive Annual Financial Report continues to meet both of the programs' requirements and are submitting it to the GFOA and CSMFO to determine its eligibility for future awards.

The District also received a *Distinguished Budget Presentation Award* from the GFOA for the District's Operating and Capital Budget for Fiscal Year beginning July 1, 2005, as well as three awards from the CSMFO for *Excellence in Public Communications*, *Meritorious in Innovation in Budgeting*, and *Excellence in Capital Budgeting*. These prestigious awards recognize conformance with the highest standards for preparation of state and local government financial reports.

I would like to thank all of the staff involved for their efforts in preparing this Comprehensive Annual Financial Report, and for their hard work to ensure a successful outcome. I would also like to thank the firm of Teaman, Ramirez and Smith, Inc., for their professional work and opinion. To the Board of Directors, staff and I acknowledge and appreciate their continued support and direction in achieving excellence in financial management.

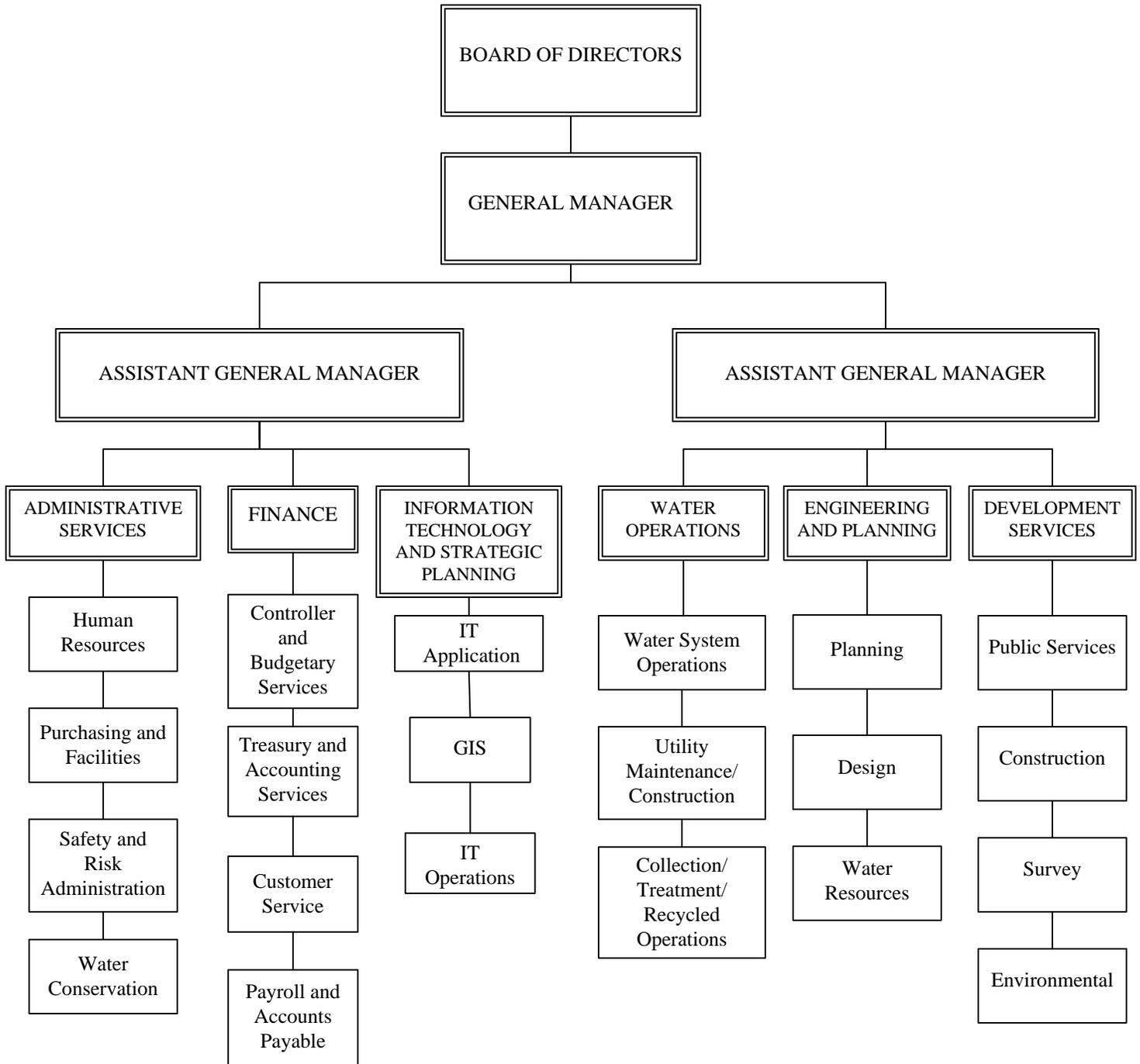


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Mark Watton, General Manager



# ORGANIZATION CHART





## **LIST OF PRINCIPAL OFFICIALS FISCAL YEAR 2005-2006**

### **Board of Directors**



*Listed from Left to Right*

**Larry Breitfelder** - Division 1

**Jose Lopez – President** - Division 4

**Jaime Bonilla** - Division 2

**Mark Robak** - Vice President, Division 5

**Gary Croucher** - Treasurer, Division 3

### **District Financial Management**

**Mark Watton** - General Manager

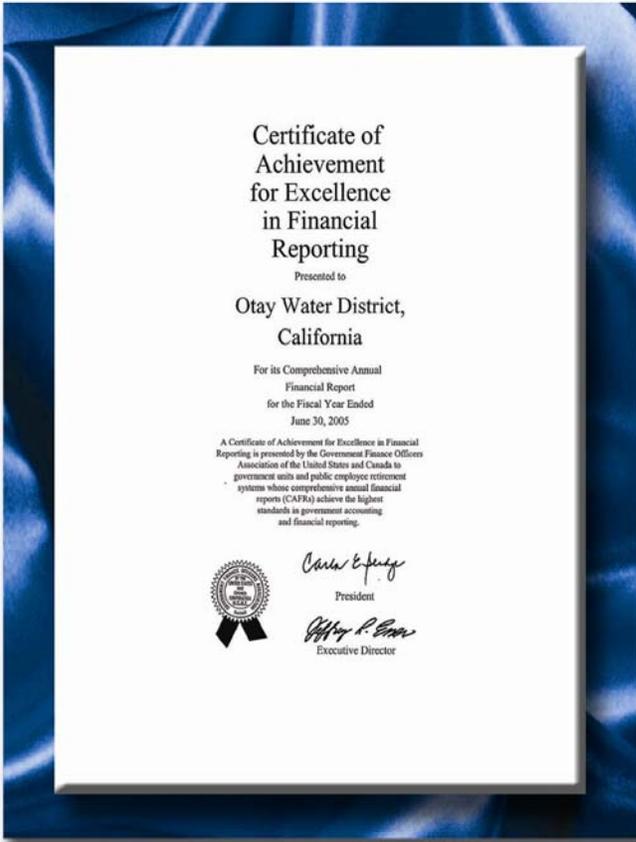
**German Alvarez** - Assistant General Manager, Finance and Administration

**Manny Magaña** - Assistant General Manager, Engineering and Operations

**Joseph R. Beachem** - Chief Financial Officer



# AWARDS



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# Financial



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Otay Water District  
Spring Valley, California

We have audited the accompanying financial statements of the business-type activities of the Otay Water District, as of and for the years ended June 30, 2006 and 2005, which collectively comprise the District's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Otay Water District, as of June 30, 2006 and 2005, and the cash flows where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006 on our consideration of the District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information identified in the accompanying table of contents as *Management's Discussion and Analysis* and *Required Supplementary Information* is not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Otay Water District's basic financial statements. The introductory section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Teaman Ramirez & Smith*

August 10, 2006





## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Otay Water District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ending June 30, 2006. Please read it in conjunction with the District's financial statements that follow Management's Discussion and Analysis. All amounts, unless otherwise indicated, are expressed in millions of dollars.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$422.1 million (*net assets*). Of this amount, \$60.5 million (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$11.0 million. Approximately \$4.5 million of this is attributable to an increase in operating revenues over the prior fiscal year.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of the following: 1) Statement of Net Assets, 2) Statement of Revenues, Expenses and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or weakening.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The *Statement of Cash Flows* presents information on cash receipts and payments for the fiscal year.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data supplied in the government-wide financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's progress in funding its obligation to provide pension benefits to its employees.

### **Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$422.1 million at the close of the most recent fiscal year.

By far the largest portion of the District's net assets, \$361.6 million (86%), reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Statement of Net Assets (In Millions of Dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets</b>			
Current and Other Assets	\$ 86.4	\$ 107.8	\$ 107.4
Capital Assets	<u>397.0</u>	<u>362.5</u>	<u>329.3</u>
<b>Total Assets</b>	<u>483.4</u>	<u>470.3</u>	<u>436.7</u>
<b>Liabilities</b>			
Long-term Debt Outstanding	33.9	35.4	36.1
Other Liabilities	<u>27.4</u>	<u>23.8</u>	<u>17.6</u>
<b>Total Liabilities</b>	<u>61.3</u>	<u>59.2</u>	<u>53.7</u>
<b>Net Assets</b>			
Invested in Capital Assets			
Net of Related Debt	361.6	325.7	291.9
Restricted	0.0	16.2	23.9
Unrestricted	<u>60.5</u>	<u>69.2</u>	<u>67.2</u>
<b>Total Net Assets</b>	<u>\$ 422.1</u>	<u>\$ 411.1</u>	<u>\$ 383.0</u>

In prior years the District segregated Net Assets into three categories: Restricted, Unrestricted, and Invested in Capital Assets Net of Related Debt. The Restricted assets consisted of funds that were designated for capital improvements. During the current year all of these funds were used to pay for major capital improvements in the District's Potable Water System and Reclaimed Water System.

At the end of the fiscal year, the District is able to report positive balances in all categories of net assets. The situation held true for the prior fiscal year. Total net assets increased by approximately \$11.0 million from the prior year, substantially as a result of a \$34.5 million increase in capital assets, net of related accumulated depreciation. An increase in infrastructure of \$29.0 million from 2005 to 2006 accounted for the majority of the increase in Capital Assets. See Note 3 in the Notes to Financial Statements for additional information. Other less significant changes include an increase in accounts payable of \$2.9 million, and a decrease in long-term debt of \$1.4 million.

Funding for the increase in net assets came primarily from capital contributions during fiscal year 2005-2006, which totaled approximately \$15.4 million.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Statements of Revenues, Expenses, and Changes in Net Assets (In Millions of Dollars)

	2006	2005	2004
Water Sales	\$ 43.8	\$ 39.3	\$ 39.0
Wastewater Revenue	2.3	2.0	1.8
Connection and Other Fees	1.8	2.0	0.7
Non-operating Revenues	8.5	8.3	7.1
<b>Total Revenues</b>	<b>56.4</b>	<b>51.6</b>	<b>48.6</b>
Depreciation Expense	10.1	10.5	10.1
Other Operating Expense	49.5	46.0	41.4
Non-operating Expense	1.2	1.9	3.6
<b>Total Expenses</b>	<b>60.8</b>	<b>58.4</b>	<b>55.1</b>
Loss Before Capital Contributions	(4.4)	(6.8)	(6.5)
Capital Contributions	15.4	34.9	29.1
Change in Net Assets	11.0	28.1	22.6
Beginning Net Assets	411.1	383.0	360.4
Ending Net Assets	\$ 422.1	\$ 411.1	\$ 383.0

Water sales increased by \$4.5 million from the prior year mainly due to reduced rainfall during the current year, as well as an increase in water meter sales of 835 (46,648 to 47,483). There was a significant decrease in rainfall of 16.45 inches (22.51 to 6.06), and total water sales increased by 3,044 acre-feet.

Wastewater revenue increased by \$0.3 million as a result of a rate increase from \$26.90 to \$30.90 per assigned service unit. This increase was implemented in January of 2006 and was a pass-through cost increase from the City and County of San Diego as discussed in the Budget 2006-2007 section of this document.

Other operating expenses increased by approximately \$3.5 million, predominately as a result of an increase in the cost of water sales of \$2.0 million. Increases in outside services and higher pension costs accounted for the remainder of the increase in other operating expenses.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Capital Assets and Debt Administration

*Capital Assets.* The District's capital assets as of June 30, 2006, totaled \$397.0 million (net of accumulated depreciation). Included in this amount is land. The total increase in the District's capital assets for the current fiscal year was 9.5%.

#### Capital Assets (In Millions of Dollars)

	2006	2005	2004
Land	\$ 12.5	\$ 12.2	\$ 12.7
Water System	333.0	313.9	289.4
Engineering Equipment	5.7	5.7	5.7
Buildings	17.5	16.7	16.4
Power Operated Equipment	1.6	1.6	1.6
Transportation Equipment	2.9	2.8	2.9
Other Equipment	10.9	10.3	10.4
Reclaimed Water System	49.1	39.8	36.0
Sewer System	37.7	37.2	36.9
Construction in Progress	58.9	45.1	30.0
	529.8	485.3	442.0
Less Accumulated Depreciation	(132.8)	(122.8)	(112.7)
Net Capital Assets	\$ 397.0	\$ 362.5	\$ 329.3

As indicated by figures in the table above, the majority of capital assets added during the current fiscal year were related to water systems. In addition, the majority of the cost of construction in progress also related to water systems.

Additional information on the District's capital assets can be found in Note 3.

*Long-term Debt.* At June 30, 2006, the District had \$33.9 million in outstanding debt which consisted of the following:

General Obligation Bonds	\$ 8.4
Certificates of Participation	24.1
Notes Payable	1.4
Capital Leases	0.0
Total Long-term Debt	\$ 33.9

Additional information on the District's long-term debt can be found in Note 5.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Fiscal Year 2006-2007 Budget**

#### **Economic Factors**

While growth in the San Diego area has slowed over the last year, demand for housing continues at a similar reduced pace. This growth in new homes is expected to continue at a long-term rate of 3% until ultimate build-out. The District currently provides water service to about 68% of its total projected population, serving approximately 189,000 people. This percentage should continue to increase as the District's service area continues to develop and grow. The District is projected to deliver approximately 42,300 acre-feet of water to 48,280 customers during Fiscal Year 2006-2007.

Ultimately, the District is projected to serve approximately 277,000 people, creating an average daily demand of 56.3 million gallons per day (MGD).

#### **Financial**

The rapidly expanding demand for water service over the past few years continues to support the incremental costs associated with meeting this increase in demand. As a result, the District has been able to increase staffing levels and implement strategic changes that will provide long-term benefits to the District, while only increasing rates at modest levels.

In an effort to remain pro-active and re-affirm the adequacy of its current sewer rate structure, the District conducted a comprehensive rate study during Fiscal Year 2002-2003 with the assistance of the professional firm of Black & Veatch Corporation. The conclusions reached in the rate study revealed the need to raise rates in order to pass along cost increases from the City and County of San Diego. The first sewer rate increase was implemented in January of 2004 and rates were increased annually through 2006 to lessen the impact on customers. Future sewer rate increases will be tied directly to the cost of services.

Management is unaware of any other conditions that could have a significant past, present, or future impact on the District's current financial position, net assets or operating results.

#### **Contacting the District's Financial Management**

This financial report is designed to provide a general overview of the Otay Water District's finances for the Board of Directors, taxpayers, creditors, and other interested parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the District's Finance Department, 2554 Sweetwater Springs Blvd., Spring Valley, CA 91978-2004.

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Basic  
Financial  
Statements



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## STATEMENT OF NET ASSETS

### JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Note 2)	\$ 13,755,907	\$ 3,473,662
Restricted Cash and Cash Equivalents (Note 2)	0	6,623,379
Investments (Note 2)	62,596,513	73,376,529
Accounts Receivable	6,808,999	7,105,484
Accrued Interest Receivable	818,798	82,483
Restricted Accrued Interest Receivable	0	506,678
Restricted Taxes and Availability Charges Receivable	318,090	322,438
Inventory	592,426	620,119
Prepaid Expenses and Other Current Assets	664,133	341,686
Total Current Assets	<u>85,554,866</u>	<u>92,452,458</u>
Non-current Assets:		
Restricted Cash and Cash Equivalents (Note 2)	0	14,430,450
Capital Assets, Net of Depreciation (Note 3)	396,987,584	362,480,711
Other Non-current Assets (Note 4)	838,990	894,745
Total Non-current Assets	<u>397,826,574</u>	<u>377,805,906</u>
Total Assets	<u>483,381,440</u>	<u>470,258,364</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Current Maturities of Long-term Debt (Note 5)	1,529,848	1,456,907
Accounts Payable	11,617,499	11,809,983
Accrued Payroll Liabilities	2,348,853	2,012,855
Other Accrued Liabilities	683,350	603,657
Customer Deposits	2,489,101	2,244,193
Liabilities Payable From Restricted Assets:		
Accounts Payable	7,633,220	4,556,884
Accrued Interest	413,442	403,839
Total Current Liabilities	<u>26,715,313</u>	<u>23,088,318</u>
Non-current Liabilities:		
Liabilities Payable From Restricted Assets:		
Prepaid Capacity Fees	733,915	733,854
Long-term Debt (Note 5)		
General Obligation Bonds	8,396,755	8,728,482
Certificates of Participation	24,119,352	24,908,607
Notes Payable	1,350,778	1,659,035
Capital Lease Payable	0	51,595
Total Non-current Liabilities	<u>34,600,800</u>	<u>36,081,573</u>
Total Liabilities	<u>61,316,113</u>	<u>59,169,891</u>
<b>NET ASSETS (NOTE 6)</b>		
Invested in Capital Assets, Net of Related Debt	361,590,845	325,676,089
Restricted	0	16,188,364
Unrestricted	60,474,482	69,224,020
Total Net Assets	<u>\$ 422,065,327</u>	<u>\$ 411,088,473</u>

The accompanying notes are an integral part of this statement.



**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>		
Water Sales	\$ 43,755,610	\$ 39,348,056
Wastewater Revenue	2,331,094	2,018,596
Connection and Other Fees	1,774,384	1,969,263
	<u>47,861,088</u>	<u>43,335,915</u>
<b>OPERATING EXPENSES</b>		
Cost of Water Sales	32,043,395	30,127,087
Wastewater	1,899,957	2,050,643
Administrative and General	15,477,287	13,747,611
Depreciation	10,107,455	10,524,134
	<u>59,528,094</u>	<u>56,449,475</u>
Total Operating Revenues	<u>47,861,088</u>	<u>43,335,915</u>
Total Operating Expenses	<u>59,528,094</u>	<u>56,449,475</u>
Operating Income (Loss)	<u>(11,667,006)</u>	<u>(13,113,560)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment Income	3,188,645	2,052,292
Taxes and Assessments	2,779,635	2,326,526
Availability Charges	609,099	556,590
Gain on Sale of Capital Assets	142,922	2,196,655
Miscellaneous Revenues	1,835,710	1,088,473
Donations	(75,000)	(61,411)
Interest Expense	(959,225)	(1,327,844)
Miscellaneous Expenses	(279,506)	(559,799)
	<u>7,242,280</u>	<u>6,271,482</u>
Total Non-operating Revenues (Expenses)	<u>7,242,280</u>	<u>6,271,482</u>
Income (Loss) Before Contributions	(4,424,726)	(6,842,078)
Capital Contributions	<u>15,401,580</u>	<u>34,969,305</u>
Change in Net Assets	10,976,854	28,127,227
Total Net Assets, Beginning	<u>411,088,473</u>	<u>382,961,246</u>
Total Net Assets, Ending	<u>\$ 422,065,327</u>	<u>\$ 411,088,473</u>

The accompanying notes are an integral part of this statement.



## STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 46,774,271	\$ 40,613,568
Cash from Other Operating Activities	1,774,384	1,969,263
Other Receipts	1,029,696	436,941
Cash Payments to Suppliers	(30,885,264)	(26,872,181)
Cash Payments to Employees	(15,530,526)	(13,203,467)
Other Payments	(186,793)	(228,889)
	<u>2,975,768</u>	<u>2,715,235</u>
Net Cash Provided (Used) By Operating Activities		
	<u>2,975,768</u>	<u>2,715,235</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Receipts from Taxes and Assessments	2,783,983	2,227,292
Receipts from Property Rents and Leases	819,239	766,733
Net Amounts Paid for Acquisition and Maintenance of Demonstration Garden	(75,000)	(61,411)
	<u>3,528,222</u>	<u>2,932,614</u>
Net Cash Provided (Used) By Noncapital Financing Activities		
	<u>3,528,222</u>	<u>2,932,614</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Capital Contributions	9,467,925	11,401,613
Proceeds from Sale of Capital Assets	142,922	2,637,143
Proceeds from Debt Related Taxes and Assessments	609,099	579,905
Proceeds from Long-Term Debt (Note 5)	0	12,270,000
Principal Payments on Long-Term Debt (Note 5)	(1,456,911)	(13,014,439)
Premium Payment on Long-Term Debt	0	(233,600)
Acquisition and Construction of Capital Assets	(38,828,011)	(20,231,136)
Interest Paid	(949,622)	(1,676,550)
	<u>(31,014,598)</u>	<u>(8,267,064)</u>
Net Cash (Used) By Capital and Related Financing Activities		
	<u>(31,014,598)</u>	<u>(8,267,064)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received on Investments	2,959,008	1,938,759
Proceeds from Sale and Maturities of Investments	52,780,016	8,000,000
Purchase of Investments	(42,000,000)	(24,012,814)
	<u>13,739,024</u>	<u>(14,074,055)</u>
Net Cash Provided (Used) by Investing Activities		
	<u>13,739,024</u>	<u>(14,074,055)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(10,771,584)	(16,693,270)
Cash and Cash Equivalents - Beginning of Year	<u>24,527,491</u>	<u>41,220,761</u>
Cash and Cash Equivalents - End of Year	<u>\$ 13,755,907</u>	<u>\$ 24,527,491</u>

The accompanying notes are an integral part of this statement.



## STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Net Operating Income (Loss)	\$ (11,667,006)	\$ (13,113,560)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	10,107,455	10,524,134
Miscellaneous Revenues	1,029,696	436,941
Miscellaneous Expenses	(186,793)	(228,889)
Increase in Allowance for Doubtful Accounts	146,174	0
(Increase) Decrease in Accounts Receivable	296,485	(753,084)
(Increase) Decrease in Inventory	27,693	(133,811)
(Increase) Decrease in Prepaid Expenses and Other Current Assets	(322,447)	(90,729)
Increase (Decrease) in Accounts Payable	2,883,852	6,435,312
Increase (Decrease) in Accrued Payroll and Related Expenses	335,998	(116,231)
Increase (Decrease) in Other Accrued Liabilities	79,693	126,893
Increase (Decrease) in Customer Deposits	244,908	(321,783)
Increase (Decrease) in Prepaid Capacity Fees	60	(49,958)
	<u>\$ 2,975,768</u>	<u>\$ 2,715,235</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
<b>Non-cash Investing and Financing Activities Consisted of the Following:</b>		
Contributed Capital for Water and Sewer System	\$ 24,494,557	\$ 23,580,701
Change in Fair Value of Investments and Recognized Gains/Losses	354,270	(347,693)
Capital Contribution Resulting from Prepaid Capacity Fees	60	55,848
Amortization Related to Long-term Debt	92,713	95,568
Cash Paid for Interest Expense	\$ 1,410,957	\$ 1,360,257

The accompanying notes are an integral part of this statement.



**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

<b><u>NOTE</u></b>	<b><u>DESCRIPTION</u></b>	<b><u>PAGE</u></b>
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## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A) Reporting Entity

Otay Water District (the "District") is a public entity established in 1956 pursuant to the Municipal Water District Law of 1911 (Section 711 et. Seq. of the California Water Code) for the purpose of providing water and sewer services to the properties in the District. The District is governed by a Board of Directors consisting of five directors elected by geographical divisions based on District population for a four-year alternating term.

#### B) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements of the Otay Water District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Fund equity is displayed as three components: (1) Invested in capital assets, net of related debt, which reflects the cost of capital assets less accumulated depreciation and less the outstanding principal of related debt not associated with unspent bond proceeds; (2) Restricted, which reflects the carrying value of assets less related liabilities that are restricted by outside covenants or by law; and (3) Unrestricted, which represents the remaining fund equity balance.

The District distinguishes operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by water sales and wastewater services while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and wastewater treatment services.

The District recognizes revenues from water sales, wastewater revenues and meter fees as they are earned. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego, net of allowance for delinquencies of \$35,343 and \$35,826 at June 30, 2006 and 2005, respectively.

Additionally, capacity fee contributions received in an amount corresponding to expansion specific operating expenses are offset against these expenses and included in Cost of Water Sales in the Statement of Revenues and Expenses and Changes in Net Assets.

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

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governmental enterprise funds. In accordance with GASB Statement 20, the District has elected to follow all GASB Pronouncements and apply all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, with the exception of those that conflict with or contradict GASB Pronouncements.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### C) Statement of Cash Flows

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity period, at purchase, of three months or less to be cash equivalents.

#### D) Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the District's investments are stated at fair value, which is determined using selected basis. Short-term investments are reported at cost, which approximates fair value. Investments in government obligations are valued on over-the-counter bid quotations available at year-end. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported on the fair value per share, of the pool's underlying portfolio.

#### E) Inventory and Prepaids

Inventory consists primarily of materials used in the construction and maintenance of the water and sewer system and is valued at weighted average cost. Both inventory and prepaids use the consumption method whereby they are reported as an asset and expensed as they are consumed.

#### F) Capital Assets

Capital assets are recorded at cost, where historical records are available, and at an estimated historical cost where no historical records exist. Capital assets purchased in excess of \$10,000 are capitalized if they have an expected useful life of two years or more. The cost of purchased and self-constructed additions to utility plant and major replacements of property are capitalized. Costs include materials, direct labor, transportation, and such indirect items as engineering, supervision, employee fringe benefits, and interest incurred during the construction period. Repairs, maintenance, and minor replacements of property are charged to expense. Donated assets are capitalized at their approximate fair market value on the date contributed.

The District capitalizes interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of water system assets and is depreciated on the straight-line basis over the estimated useful lives of such assets.

Depreciation is calculated using the straight-line method over the following estimated useful lives:

Water System	15-70 Years
Engineering Equipment	2-50 Years
Buildings	30-50 Years
Power Operated Equipment	5-10 Years
Transportation Equipment	2-4 Years
Other Equipment	2-10 Years
Reclaimed Water System	50-75 Years
Sewer System	25-50 Years



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### G) Compensated Absences

In accordance with GASB Statement No. 16, a liability is recorded for unused vacation and sick leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time-off or payment upon termination or retirement.

#### H) Restricted Assets and Liabilities

Certain current liabilities have been classified as current liabilities payable from restricted assets as they will be funded from restricted assets.

#### I) Allowance for Doubtful Accounts

The District charges doubtful accounts arising from water sales receivable to bad debt expense when it is probable that the accounts will be uncollectible. Uncollectible accounts are determined by the allowance method based upon prior experience and management's assessment of the collectibility of existing specific accounts.

#### J) Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by management.

#### K) Property Taxes

Tax levies are limited to 1% of full market value (at time of purchase) which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

The County of San Diego (the "County") bills and collects property taxes on behalf of the District. The County's tax calendar year is July 1 to June 30. Property taxes attach as a lien on property on March 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

#### L) Reclassifications

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

### 2) CASH AND INVESTMENTS

The primary goals of the District's Investment Policy are to assure compliance with all Federal, State, and Local laws governing the investment of funds under the control of the organization, protect the principal of investments entrusted, and generate income under the parameters of such policies.

The District's Investment Policy and State statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, prime commercial paper, repurchase agreements, and negotiable certificates of deposit. Funds may also be invested in the State Treasurer's Local Agency Investment Fund (LAIF) and the San Diego County Treasurer's Pooled Money Fund.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 2) CASH AND INVESTMENTS - Continued

Cash and Investments are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Cash Equivalents	\$ 13,755,907
Investments	62,596,513
Restricted: **	
Cash and Cash Equivalents	<u>0</u>
Total Cash and Investments	<u>\$ 76,352,420</u>

\*\* During the current year all restricted funds were used to pay for major capital improvements in the District's Potable and Recycled Water Systems.

Cash and investments consist of the following:

Cash on Hand	\$ 2,800
Deposits with Financial Institutions	1,109,799
Investments	<u>75,239,821</u>
Total Cash and Investments	<u>\$ 76,352,420</u>

#### Investments 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 (or the District's Investment Policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's Investment Policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's Investment Policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio <sup>(1)</sup>	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years <sup>(2)</sup>	None	None
Federal Agency Securities	5 years	70%	None
Certificates of Deposit	1 year	30%	None
Repurchase Agreements	1 year	15%	None
Medium-Term Notes	5 years	15%	None
Commercial Paper	180 days	15%	10%
Money Market Mutual Funds	N/A	15%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

<sup>(1)</sup> Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

<sup>(2)</sup> No more than 30% of the portfolio shall exceed two years to maturity.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 2) CASH AND INVESTMENTS - Continued

#### Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's Investment Policy.

#### 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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities, so that a portion of the portfolio is maturing or coming close to maturity evenly 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 (including investments held by the bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity.

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			
	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
U.S. Treasury Securities	\$ 8,938,125	\$ 8,938,125	\$	\$
Federal Agency Securities	53,658,388	32,804,485	20,853,903	
Local Agency Investment Fund (LAIF)	12,544,721	12,544,721		
San Diego County Pool	<u>98,587</u>	<u>98,587</u>		
Total	<u>\$ 75,239,821</u>	<u>\$ 54,385,918</u>	<u>\$ 20,853,903</u>	<u>\$ 0</u> <u>\$ 0</u>

#### 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 minimum rating required by (where applicable) the California Government Code or the District's Investment Policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
U. S. Treasury Securities	\$ 8,938,125		\$ 8,938,125	\$		\$
Federal Agency Securities	53,658,388	N/A		53,658,388		
Local Agency Investment Fund	12,544,721	N/A				12,544,721
San Diego County Pool	<u>98,587</u>	N/A				<u>98,587</u>
Total	<u>\$ 75,239,821</u>		<u>\$ 8,938,125</u>	<u>\$ 53,658,388</u>	<u>\$ 0</u>	<u>\$ 12,643,308</u>



**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

**2) CASH AND INVESTMENTS - Continued**

**Concentration of Credit Risk**

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code, Sections 53600 through 53692. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal Agency Securities	\$ 53,658,388

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government 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 government 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2006, \$796,084 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts. As of June 30, 2006, District investments in the following investment types were held by the same broker-dealer (counter party) that was used by the District to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
U.S. Treasury Securities	\$ 8,938,125
Federal Agency Securities	53,658,388

**Local Agency Investment Fund (LAIF)**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon 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 LAIF is a special fund of the California State Treasury through which local governments may pool investments. The District may invest up to \$40,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 2) CASH AND INVESTMENTS - Continued

cash within 24 hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California. The yield of LAIF during the quarter ended June 30, 2006 was 4.53%. The carrying value and estimated market value of the LAIF Pool at June 30, 2006 was \$63,481,426,759 and \$63,366,260,064, respectively. The District's share of the Pool at June 30, 2006 was approximately 0.020 percent. Included in LAIF's investment portfolio are structured notes and asset-backed securities totaling \$225,000,000 and \$1,400,919,000, respectively. LAIF's and the District's exposure to risk (credit, market or legal) is not currently available. The LAIF has oversight by the Local Investment Advisory Board. The LAIF Board consists of five members as designated by statute.

#### **San Diego County Pooled Fund**

As permitted by its Investment Policy, the District has placed funds with the San Diego County Pooled Fund. The pool may invest some of their portfolios in derivatives. Detailed information on derivative investments held by this pool is not readily available.

#### **Collateral for Deposits**

All cash and certificates of deposits are entirely insured or collateralized.

Under the provisions of the California Government Code, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits.

The District may waive the 110% collateral requirement for deposits which are insured up to \$100,000 by the FDIC.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 3) CAPITAL ASSETS

The following is a summary of changes in Capital Assets for the year ended June 30, 2006:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated				
Land	\$ 12,215,546	\$ 278,516	\$	\$ 12,494,062
Construction in Progress	<u>45,144,448</u>	<u>38,365,427</u>	<u>(24,640,634)</u>	<u>58,869,241</u>
Total Capital Assets Not Depreciated	<u>57,359,994</u>	<u>38,643,943</u>	<u>(24,640,634)</u>	<u>71,363,303</u>
Capital Assets, Being Depreciated				
Infrastructure	390,927,657	28,868,342		419,795,999
Field Equipment	9,030,438	175,656	(3,551)	9,202,543
Buildings	16,660,604	809,395		17,469,999
Transportation Equipment	2,782,493	151,576		2,934,069
Communication Equipment	209,103	311,437		520,540
Office Equipment	<u>8,382,914</u>	<u>295,692</u>	<u>(213,644)</u>	<u>8,464,962</u>
Total Capital Assets Being Depreciated	<u>427,993,209</u>	<u>30,612,098</u>	<u>(217,195)</u>	<u>458,388,112</u>
Less Accumulated Depreciation:				
Infrastructure	101,686,388	8,471,264		110,157,652
Field Equipment	8,123,774	248,532	(3,551)	8,368,755
Buildings	3,943,295	550,013		4,493,308
Transportation Equipment	2,289,674	267,533		2,557,207
Communication Equipment	183,142	12,328		195,470
Office Equipment	<u>6,646,219</u>	<u>557,785</u>	<u>(212,565)</u>	<u>6,991,439</u>
Total Accumulated Depreciation	<u>122,872,492</u>	<u>10,107,455</u>	<u>(216,116)</u>	<u>132,763,831</u>
Total Capital Assets Being Depreciated, Net	<u>305,120,717</u>	<u>20,504,643</u>	<u>(1,079)</u>	<u>325,624,281</u>
Total Capital Assets, Net	<u>\$ 362,480,711</u>	<u>\$ 59,148,586</u>	<u>\$ (24,641,713)</u>	<u>\$ 396,987,584</u>

Depreciation expense for the year ended June 30, 2006 and 2005 was \$10,107,455 and \$10,524,134, respectively.

### 4) OTHER NON-CURRENT ASSETS

Contracts receivable totaled \$92,375 and \$105,600, net of no allowance as of June 30, 2006 and 2005, respectively.

Deferred bond issue costs totaled \$555,550 and \$586,950, net of accumulated amortization of \$326,552 and \$295,152 as of June 30, 2006 and 2005, respectively. There was a 1993 COPS refunding transaction as of June 30, 2006. The costs are amortized on the straight-line method based on the estimated term of the related bond debt. Amortization expense of \$31,400 and \$366,393 for the years ended June 30, 2006 and 2005 is included with miscellaneous expense.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 5) LONG-TERM DEBT

Long-term liabilities for the year ended June 30, 2006 were as follows:

	<u>Beginning Balance</u>	<u>Additions/ Amortization</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>General Obligation Bonds:</b>					
Improvement District No. 27	\$ 9,955,000	\$	\$ 365,000	\$ 9,590,000	\$ 380,000
Unamortized Bond Discount	(125,748)	7,397		(118,351)	
Deferred Amount of Funding	<u>(735,770)</u>	<u>40,876</u>		<u>(694,894)</u>	
Net General Obligation Bonds	<u>9,093,482</u>	<u>48,273</u>	<u>365,000</u>	<u>8,776,755</u>	<u>380,000</u>
<b>Certificates of Participation:</b>					
1996 Certificates of Participation	13,400,000		300,000	13,100,000	300,000
2004 Certificates of Participation	12,270,000		445,000	11,825,000	490,000
Unamortized Discount	<u>(16,393)</u>	<u>745</u>		<u>(15,648)</u>	
Net Certificates of Participation	<u>25,653,607</u>	<u>745</u>	<u>745,000</u>	<u>24,909,352</u>	<u>790,000</u>
<b>Notes Payable</b>					
State Water Resource Control Board	1,956,871		297,834	1,659,037	308,259
<b>Capital Leases</b>					
Vactor	<u>100,666</u>		<u>49,077</u>	<u>51,589</u>	<u>51,589</u>
<b>Total Long-Term Liabilities</b>	<u>\$ 36,804,626</u>	<u>\$ 49,018</u>	<u>\$ 1,456,911</u>	<u>\$ 35,396,733</u>	<u>\$ 1,529,848</u>

#### General Obligation Bonds

In June 1998, the District issued \$11,835,000 of General Obligation Refunding Bonds. The proceeds of this issue, together with other lawfully available monies, were to be used to establish an irrevocable escrow to advance refund and defease in their entirety the District's previous outstanding General Obligation Bond issue. These bonds are general obligations of Improvement District No. 27 (ID 27) of the District. The Board of Directors has the power and is obligated to levy annual ad valorem taxes without limitation as to rate or amount for payment of the bonds and the interest upon all property which is within ID 27 and subject to taxation. The General Obligation Bonds are payable from District-wide tax revenues. The Board may utilize other sources for servicing the bond debt and interest.

The refunding resulted in a deferred amount of \$1,021,903, which is being amortized over the remaining life of the refunded debt. Amortization for the years ended June 30, 2006 and 2005 was \$40,876 for each year and is included in miscellaneous non-operating expenses. As of June 30, 2006 and 2005, the amortized deferred amount of refunding is \$694,894, and \$735,770, respectively.

The 1998 General Obligation Bonds have interest rates from 4.5% to 5% with maturities through the Fiscal Year 2023.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 5) LONG-TERM DEBT - Continued

Future debt service requirements for the bonds are as follows:

<u>For the Year Ended June 30.</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 380,000	\$ 457,935
2008	400,000	440,385
2009	415,000	422,047
2010	435,000	402,705
2011	455,000	382,235
2012-2016	2,610,000	1,557,095
2017-2021	3,320,000	825,000
2022-2023	<u>1,575,000</u>	<u>79,625</u>
	<u>\$ 9,590,000</u>	<u>\$ 4,567,027</u>

The following General Obligation Bonds have been authorized by the Board of Directors, but were unissued as of June 30, 2006:

<u>Date Authorized</u>	<u>Improvement District (ID)</u>	<u>Construction Purpose</u>	<u>Bond Amount</u>
December 30, 1960	5	Water System	\$ 605,000
December 20, 1960	6	Sewer System	705,000
August 23, 1960	1 - 3	Sewer System	405,000
August 23, 1960	1 - 4	Water System	75,000
March 18, 1970	U - 18	Sewer System	2,700,000
April 19, 1971	U - 19	Water System	1,000,000
May 17, 1971	U - 20	Water System	13,000,000
June 5, 1972	U - 22	Water System	6,000,000
May 1, 1978	U - 25	Water System	5,050,000
November 1, 1989	U - 27	Water System	88,500,000

### Certificates of Participation (COPs)

In June 1996, COPs with face value of \$15,400,000 were also sold by the Otay Service Corporation to finance the cost of design, acquisition, and construction of certain capital improvements. An installment purchase agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPs. The installment payments are to be paid from taxes and "net revenues," as described in the installment agreement. The certificates bear interest at a variable weekly rate not to exceed 12%. The interest rate at June 30, 2006 was 3.95%. The installment payments are to be paid annually at \$350,000 to \$900,000 from September 1, 1996 through September 1, 2026.



**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2006 AND 2005**

**5) LONG-TERM DEBT - Continued**

**Certificates of Participation (COPs) - Continued**

In July 2004, Refunding Certificates of Participation (COPs) with a face value of \$12,270,000 were sold by the Otay Service Corporation to advance refund \$11,680,000 of outstanding 1993 COPs. An installment agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principle and interest associated with the COPs. The installment payments are to be paid from taxes and "net revenues," as described in the installment agreement. The certificates are due in annual installments of \$445,000 to \$895,000 from September 1, 2005 through September 1, 2023; bearing interest at 3% to 4.625%.

There is no aggregate reserve requirement for the COPs. Future debt service requirements for the certificates are as follows:

For the Year Ended June 30	1996 COPs		2004 COPs	
	Principal	Interest*	Principal	Interest
2007	\$ 300,000	\$ 517,450	\$ 490,000	\$ 448,384
2008	300,000	505,600	500,000	433,534
2009	400,000	493,750	515,000	418,309
2010	400,000	477,950	530,000	402,634
2011	400,000	462,150	545,000	386,236
2012-2016	2,500,000	2,050,050	3,020,000	1,635,461
2017-2021	3,300,000	1,489,150	3,645,000	985,556
2022-2026	4,400,000	758,400	2,580,000	180,097
2027	<u>1,100,000</u>	<u>43,450</u>		
	<u>\$ 13,100,000</u>	<u>\$ 6,797,950</u>	<u>\$ 11,825,000</u>	<u>\$ 4,890,211</u>

\* Variable Rate - Interest reflected at June 30, 2006 at a rate of 3.95%.

**Note Payable**

At June 30, 2006, the District had a 3.5% note payable to the State Water Resources Control Board. This note is unsecured and payable in annual installments of \$366,325 including principal and interest from 1994 through 2010. The total amount outstanding at June 30, 2006 and aggregate maturities of the note for the fiscal years subsequent to June 30, 2006, are as follows:

For the Year Ended June 30,	Principal	Interest
2007	\$ 308,259	\$ 58,066
2008	319,048	47,277
2009	330,214	36,111
2010	341,772	24,553
2011	<u>359,744</u>	<u>12,591</u>
	<u>\$ 1,659,037</u>	<u>\$ 178,598</u>



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 5) LONG-TERM DEBT - Continued

#### Capital Lease Payable

The District leases a Vactor 2110 truck under a capital lease that expires in February of 2007. The economic substance of the lease is that the District is financing the acquisition of the asset through the lease, and accordingly, it is recorded in the District's assets and liabilities. The lease contains a 5.13% interest rate and is payable in annual installments of \$54,236, including principal and interest, from 2005 through 2007.

The annual future minimum lease payments together with the present value of the minimum lease payments under capital at June 30, 2006 are as follows:

2007	<u>\$ 54,236</u>
Total Minimum Lease Payments	54,236
Less: Amount Representing Interest	<u>(2,647)</u>
Present Value of Minimum Lease Payments	<u>\$ 51,589</u>

The asset acquired through the capital lease is as follows:

Asset:	
Field Equipment	245,977
Less: Accumulated Depreciation	<u>(105,419)</u>
Total	<u>\$ 140,558</u>



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 6) SEGMENT INFORMATION

The District issued Certificates of Participation to finance certain capital improvements. Both the water and sewer departments are accounted for in a single fund. The sewer department operates the District's sewage treatment plant, sewage pumping stations, and collection systems, while the water department accounts for all other services. However, investors in the Certificates of Participation rely solely on the revenues generated by the individual activities for repayment.

Summary financial information for the water and sewer departments is presented below.

#### Condensed Statement of Net Assets

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Assets:			
Current Assets	\$ 85,132,865	\$ 103,911	\$ 85,236,776
Current Restricted Assets	318,090		318,090
Capital Assets	396,238,702	748,882	396,987,584
Other Non-current Assets	<u>838,990</u>		<u>838,990</u>
Total Assets	<u>482,528,647</u>	<u>852,793</u>	<u>483,381,440</u>
Liabilities:			
Current Liabilities	18,361,578	307,073	18,668,651
Current Liabilities Payable from Restricted Assets	8,046,662		8,046,662
Non-current Liabilities Payable from Restricted Assets	726,415	7,500	733,915
Non-current Liabilities	<u>33,866,885</u>		<u>33,866,885</u>
Total Liabilities	<u>61,001,540</u>	<u>314,573</u>	<u>61,316,113</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	360,841,963	748,882	361,590,845
Unrestricted	<u>60,685,144</u>	<u>(210,662)</u>	<u>60,474,482</u>
Total Net Assets	<u>\$ 421,527,107</u>	<u>\$ 538,220</u>	<u>\$ 422,065,327</u>



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 6) SEGMENT INFORMATION - Continued

#### Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	Water	Sewer	Total
Operating Revenues	\$ 45,529,994	\$ 2,331,094	\$ 47,861,088
Depreciation	(10,107,455)		(10,107,455)
Other Operating Expenses	<u>(47,520,682)</u>	<u>(1,899,957)</u>	<u>(49,420,639)</u>
Operating Income	<u>(12,098,143)</u>	<u>431,137</u>	<u>(11,667,006)</u>
Non-operating Revenues (Expenses):			
Investment Income	3,173,752	14,893	3,188,645
Taxes and Assessments	2,420,271	359,364	2,779,635
Availability Charges	557,851	51,248	609,099
Gain on Sale of Capital Assets	142,922		142,922
Other Non-operating Revenues	1,835,710		1,835,710
Donations	(75,000)		(75,000)
Interest Expense	(959,225)		(959,225)
Other Non-operating Expenses	(217,818)	(61,688)	(279,506)
Transfers	897,339	(897,339)	0
Capital Contributions	<u>15,401,580</u>		<u>15,401,580</u>
Change in Net Assets	11,079,239	(102,385)	10,976,854
Total Net Assets, Beginning	<u>410,447,868</u>	<u>640,605</u>	<u>411,088,473</u>
Total Net Assets, Ending	<u>\$ 421,527,107</u>	<u>\$ 538,220</u>	<u>\$ 422,065,327</u>

#### Condensed Statement of Cash Flows

	Water	Sewer	Total
Net Cash Provided (Used) by:			
Operating Activities	2,760,328	215,440	2,975,768
Non-Capital Financing Activities	3,809,803	(281,581)	3,528,222
Capital and Related Financing			
Activities	(31,065,846)	51,248	(31,014,598)
Investing Activities	<u>13,724,131</u>	<u>14,893</u>	<u>13,739,024</u>
Net Increase (Decrease)	(10,771,584)	0	(10,771,584)
Beginning Cash and Cash Equivalents	<u>24,527,491</u>	<u>0</u>	<u>24,527,491</u>
Ending Cash and Cash Equivalents	<u>\$ 13,755,907</u>	<u>\$ 0</u>	<u>\$ 13,755,907</u>



**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

**7) NET ASSETS**

A summary of changes in net assets for the year ended June 30, 2006 is as follows:

<u>Description</u>	<u>Investment in Capital Assets (Net of Related Debt)</u>	<u>Restricted Net Assets</u>	<u>Unrestricted Net Assets</u>	<u>Total</u>
Beginning of Year	\$ 325,676,089	\$ 16,188,364	\$ 69,224,020	\$ 411,088,473
Income (Loss) Before Contributions	(10,107,455)	2,429,509	3,253,220	(4,424,726)
Capital Contributions				
Construction of Water and Sewer Systems	5,933,655			5,933,655
Capacity Fees and Capital Contributions		8,205,779		8,205,779
Betterment Fees				
Annexation Fees			1,262,146	1,262,146
Decrease in Related Capital Debt/(Transfers)	1,407,887		(1,407,887)	0
Acquisition and Construction/(Transfers)	<u>38,680,669</u>	<u>(26,823,652)</u>	<u>(11,857,017)</u>	<u>0</u>
End of Year	<u>\$ 361,590,845</u>	<u>\$ 0</u>	<u>\$ 60,474,482</u>	<u>\$ 422,065,327</u>

**Designated Net Assets**

In addition to the restricted net assets, unrestricted net assets have been designated by the Board of Directors for the following purposes as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Replacement Reserve	\$ 22,876,118	\$ 26,888,665
Insurance Reserve	16,428,945	16,532,037
Expansion Reserve	<u>5,772,470</u>	<u>4,619,864</u>
Total	<u>\$ 45,077,533</u>	<u>\$ 48,040,566</u>

**8) DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The District's defined plan, (the "Plan"), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 8) DEFINED BENEFIT PENSION PLAN - Continued

#### Funding Policy

Active members in the Plan are required to contribute 8% of their annual covered salary. The District has elected to contribute 7% on behalf of its employees. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2006 was 20.869%. The contribution requirements of the Plan members are established by State statute and the employer contribution rate is established and may be amended by the CalPERS.

#### Annual Pension Costs

For the fiscal year ended June 30, 2006, the District's annual pension cost and actual contribution was \$2,120,529. The required contribution for the fiscal year ended June 30, 2006, was determined as part of the June 30, 2005 actuarial valuation.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2005
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	22 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (Net of Administrative Expenses)
Projected Salary Increase	3.25% to 14.45% Depending on Age, Service, and Type of Employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the Plan's date of entry into CalPERS. Subsequent Plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of the plan assets, then the amortization payment of the total unfunded liability may be lower than the payment calculated over a 30-year amortization period.

#### THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	1,095,740	100%	0
6/30/05	1,684,657	100%	0
6/30/06	2,120,529	100%	0



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 9) POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, it is the District's practice and policy to provide certain life insurance and health care benefits for eligible retired employees, directors and eligible dependents. These benefits vary based on the hire date of the employee. All retired employees receive life insurance benefits provided by the District (\$3,000 to age 70 for employees and \$1,000 to age 70 for spouse).

For retiring employees hired prior to January 1, 1981, and who are age 55 or over with five years of continuous service at retirement, the District provides dental and health care benefits and prescription drug coverage.

For retiring employees hired on or after January 1, 1981 and before July 1, 1993, the District provides health care benefits and prescription drug coverage if, at retirement, the employees have neither:

Attained age 60 with age plus years of credited service equal to or greater than 70 (with dental benefits provided) or,

Attained age 55 but not age 60 with age plus years of credited service equal to or greater than 75 (without dental benefits provided).

For retired directors who commenced office prior to January 1, 1995, and have attained age 60 with at least twelve years service as a director, the District provides dental and health care benefits and prescription drug coverage.

Expenses for these post retirement benefits are recognized as insurance premiums and are paid as retirees report claims under the health insurance program described in Note 12. Post retirement benefits expense of \$641,464 and \$551,062, were recognized for 59 and 53 eligible retirees, for the years ended June 30, 2006 and 2005, respectively.

### 10) WATER CONSERVATION AUTHORITY

In 1999 the District formed the Water Conservation Authority (the "Authority"), a Joint Powers Authority, with other local entities to construct, maintain and operate a xeriscape demonstration garden in the furtherance of water conservation. The authority is a non-profit public charity organization and is exempt from income taxes. During the years ended June 30, 2006 and 2005, the District contributed \$75,000 and \$61,411, respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

A summary of the Authority's June 30, 2005 audited financial statement is as follows (latest report available):

Assets	\$ 2,619,829
Liabilities	34,460
Revenues, Gains and Other Support	446,595
Changes in Net Assets	(305,916)



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 11) COMMITMENTS AND CONTINGENCIES

#### **Construction Commitments**

The District had committed to capital projects under construction with an estimated cost to complete of \$5,167,946 at June 30, 2006.

#### **Litigation**

Certain claims, suits and complaints arising in the ordinary course of operation have been filed or are pending against the District. In the opinion of the staff and counsel, all such matters are adequately covered by insurance, or if not so covered, are without merit or are of such kind, or involved such amounts, as would not have significant effect on the financial position or results of operations of the District if disposed of unfavorably.

#### **Refundable Terminal Storage Fees**

The District has entered into an agreement with several developers whereby the developers prepaid the terminal storage fee in order to provide the District with the funds necessary to build additional storage capacity. The agreement further allows the developers to relinquish all or a portion of such water storage capacity. If the District grants to another property owner the relinquished storage capacity, the District shall refund to the applicable developer \$746 per equivalent dwelling unit (EDU). There were 17,867 EDUs that were subject to this agreement. At June 30, 2005, 1,750 EDUs had been relinquished and refunded, 13,323 EDUs had been connected, and 2,794 EDUs had neither been relinquished nor connected. At June 30, 2006, 1,750 EDUs had been relinquished and refunded, 13,412 EDUs had been connected, and 2,705 EDUs have neither been relinquished nor connected.

#### **Developer Agreements**

The District has entered into various Developer Agreements with developers towards the expansion of District facilities. The developers agree to make certain improvements and after the completion of the projects the District agrees to reimburse such improvements with a maximum reimbursement amount for each developer. Contractually, the District does not incur a liability for the work until the work is accepted by the District. As of June 30, 2006, none of the 18 outstanding developer agreements had been accepted, however it is anticipated that the District will be liable for an amount not to exceed \$2,949,428 at the point of acceptance. Accordingly, the District did not accrue a liability as of year end.

### 12) RISK MANAGEMENT

#### **General Liability**

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. The District pays an annual premium for commercial insurance covering general liability, excess liability, property, automobile, public employee dishonesty, and various other claims. Coverage limits range up to \$100 million. Accordingly, the District retains no risk of loss.



## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

### 12) RISK MANAGEMENT - Continued

#### Workers' Compensation

The District is a member of the Association of California Water Agencies Joint Powers Insurance District (Joint Powers). The Joint Powers is a risk-pooling self-insurance district, created under the provision of California Government Code Sections 6500 et. Seq. The Joint Powers is governed by a board composed of members from participating agencies. The purpose of the Joint Powers is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The District is insured up to \$25,000,000 for worker's compensation with no deductible. Separate financial statements of the Joint Powers may be obtained at ACWA Joint Powers Insurance Authority, 5620 Birdcage Street, Suite 200, Citrus Heights, CA 95610-7632.

#### Health Insurance

The District maintains a self-insurance program covering all of its employees, retirees, and other dependents. Health claims are processed and administered through a health insurance administrator and paid by the District upon presentation. The District has obtained a stop-loss insurance policy to cover individuals with claims exceeding \$45,000. The District has estimated accrued claims to be \$422,327 and \$299,700 at June 30, 2006 and 2005, respectively. Accrued health costs are included in other accrued liabilities.

#### Adequacy of Protection

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

### 13) INTEREST EXPENSE

Interest expense for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Amount Expensed	\$ 959,225	\$ 1,327,844
Amount Capitalized as a Cost of Construction Projects	<u>460,535</u>	<u>110,764</u>
Interest Paid	<u>\$ 1,419,760</u>	<u>\$ 1,438,608</u>



Required  
Supplementary  
Information



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**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

**Schedule of Funding Progress for PERS**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
6/30/03						
Miscellaneous	\$ 29,042,368	\$ 41,428,694	\$ 12,386,326	70.1%	\$ 9,058,232	136.7%
6/30/04						
Miscellaneous	\$ 31,591,156	\$ 45,156,690	\$ 13,565,534	70.0%	\$ 9,764,596	138.9%
6/30/05						
Miscellaneous	\$ 36,029,595	\$ 50,249,943	\$ 14,220,348	71.7%	\$ 10,005,158	142.1%

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Statistical





## STATISTICAL SCHEDULES

This part of Otay Water District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

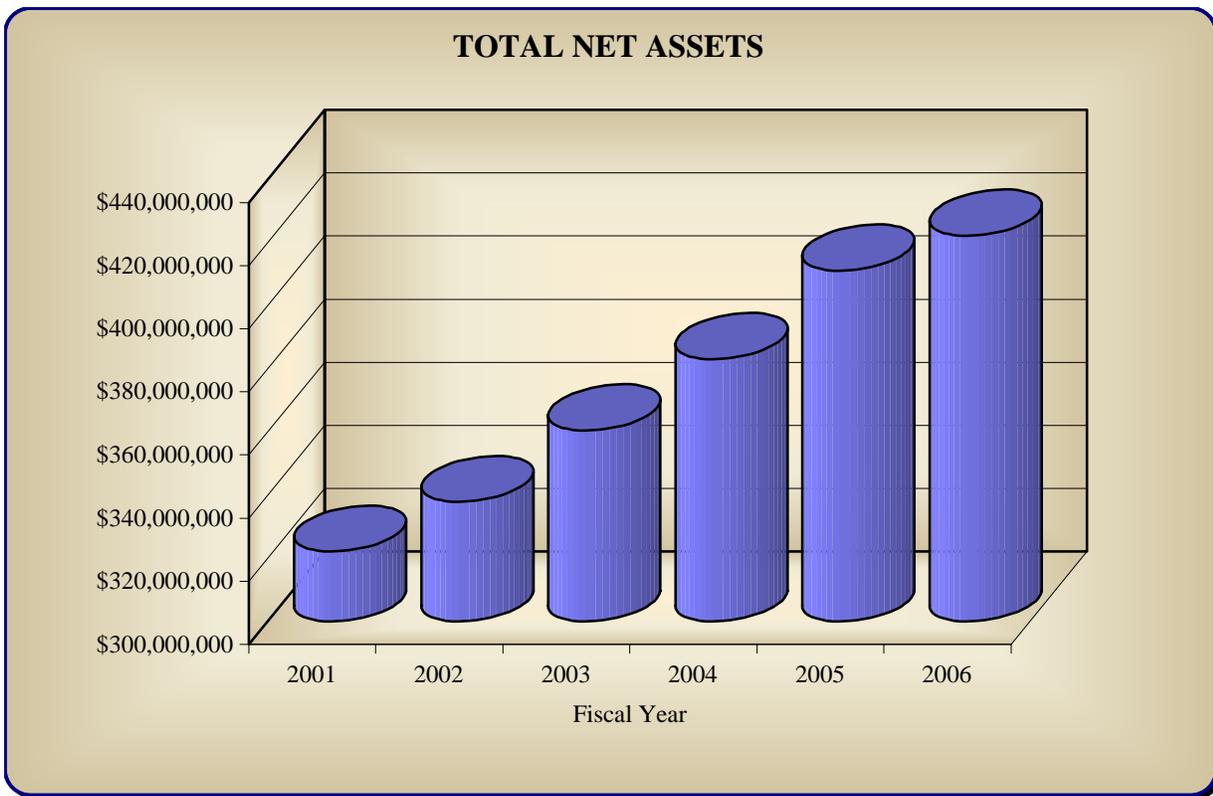
<b><u>CONTENTS</u></b>	<b><u>PAGE</u></b>
<b>FINANCIAL TRENDS</b> These schedules contain trend information to help the reader understand how the District’s financial performance and well-being have changed over time	54
<b>REVENUE CAPACITY</b> These schedules contain information to help the reader assess the factors affecting the District’s ability to generate its water, reclaimed, and sewer sales as well as property and sales taxes.	60
<b>DEBT</b> These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the district’s ability to issue additional debt in the future	67
<b>DEMOGRAPHIC AND ECONOMIC INFORMATION</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the District’s financial activities take place and to help make comparisons over time and with other governments	71
<b>OPERATING INFORMATION</b> These schedules contain information about the District’s operation and resources to help the reader understand how the District’s financial information relates to the services the District provides and the activities it performs	73
<b><u>SOURCES</u></b>	

Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports of the relevant year. The District implemented GASB Statement 34 in 2002 and presented comparative data for 2001; schedules presenting net asset information include information beginning in that year.



## NET ASSETS BY COMPONENT LAST TEN FISCAL YEARS

Fiscal Year	Invested in Capital Assets Net of Related Debt	Restricted	Unrestricted	Total Net Assets
2006	\$ 361,590,845	\$ - (2)	\$ 60,474,482	\$ 422,065,327
2005	325,676,089	16,188,364	69,224,020	411,088,473
2004	291,863,666	23,853,441	67,244,139	382,961,246
2003	269,579,907	40,945,837	49,828,535	360,354,279
2002	245,290,752	46,866,439	45,580,508	337,737,699
2001 (1)	237,230,807	42,923,480	41,854,311	322,008,598



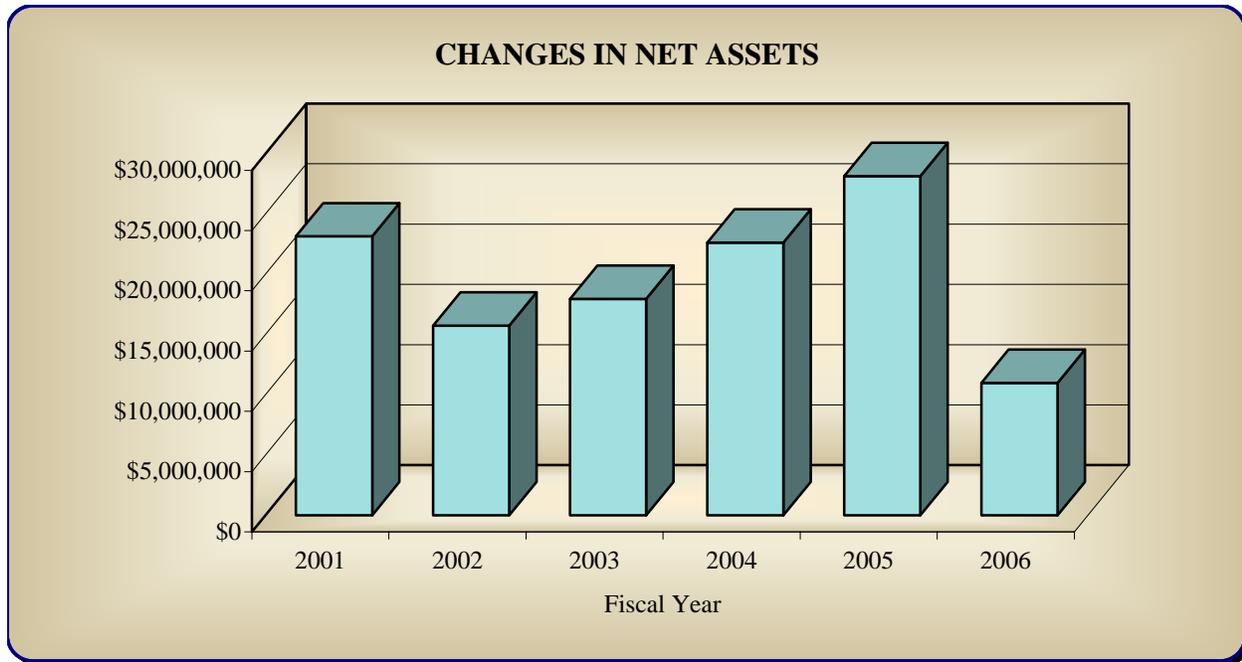
- (1) As recommended by GASB 44, this schedule provides data retroactively to the year GASB 34 was implemented. The District implemented GASB 34 in Fiscal Year 2002 and presented comparative data for Fiscal Year 2001. Accordingly, the last six Fiscal Years are presented.
- (2) During the current year all restricted funds were used to pay for major capital improvements in the District's Potable and Recycled Water Systems.

*Source: Otay Water District*



## CHANGES IN NET ASSETS LAST TEN FISCAL YEARS

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income	Total Non-Operating Revenues/ (Expenses)	Income (Loss) Before Capital Contributions	Capital Contributions	Change in Net Assets
2006	\$47,861,088	\$59,528,094	\$ (11,667,006)	\$ 7,242,280	\$ (4,424,726)	\$ 15,401,580	\$ 10,976,854
2005	43,335,915	56,449,475	(13,113,560)	6,271,482	(6,842,078)	34,969,305	28,127,227
2004	41,539,293	51,516,096	(9,976,803)	3,484,492	(6,492,311)	29,099,278	22,606,967
2003	36,961,980	46,143,486	(9,181,506)	4,517,049	(4,664,457)	22,616,580	17,952,123
2002	37,312,385	43,509,038	(6,196,653)	6,193,303	(3,350)	15,732,451	15,729,101
2001 (1)	22,598,438	40,203,049	(17,604,611)	10,526,110	(7,078,501)	30,209,604	23,131,103



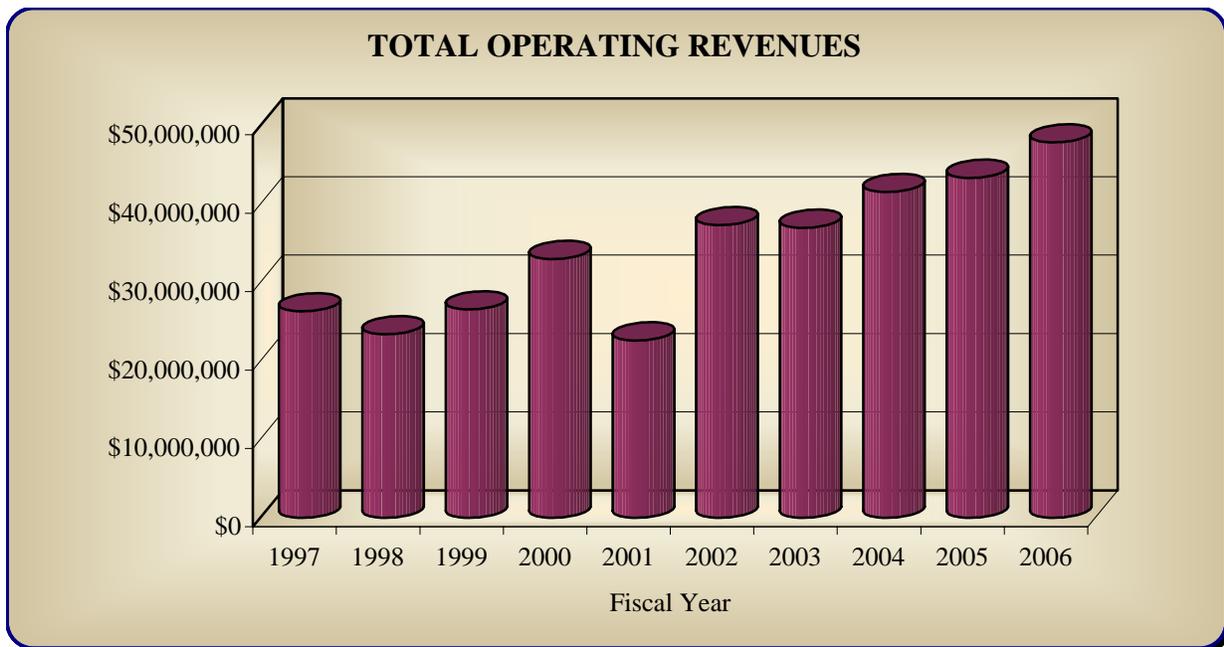
(1) As recommended by GASB 44, this schedule provides data retroactively to the year GASB 34 was implemented. The District implemented GASB 34 in Fiscal Year 2002 and presented comparative data for Fiscal Year 2001. Accordingly, the last six Fiscal Years are presented.

*Source: Otay Water District*



## OPERATING REVENUES BY SOURCE LAST TEN FISCAL YEARS

Fiscal Year	Water Sales	Wastewater Revenue	Connection and Other Fees	Total	Percent Change
2006	\$ 43,755,610	\$ 2,331,094	\$ 1,774,384	\$ 47,861,088	10.4%
2005	39,348,056	2,018,596	1,969,263	43,335,915	4.3%
2004	39,044,712	1,774,366	720,215	41,539,293	12.4%
2003	34,621,890	1,648,227	691,863	36,961,980	-0.9%
2002	34,980,289	2,031,855	300,241	37,312,385	65.1%
2001	20,645,462 (1)	1,578,581	374,395	22,598,437	-31.5%
2000	30,928,092	1,742,537	333,389	33,004,018	24.2%
1999	24,732,564	1,544,975	293,908	26,571,447	13.6%
1998	21,551,988	1,679,145	161,022	23,392,155	-11.1%
1997	24,530,385	1,676,670	120,636	26,327,691	-



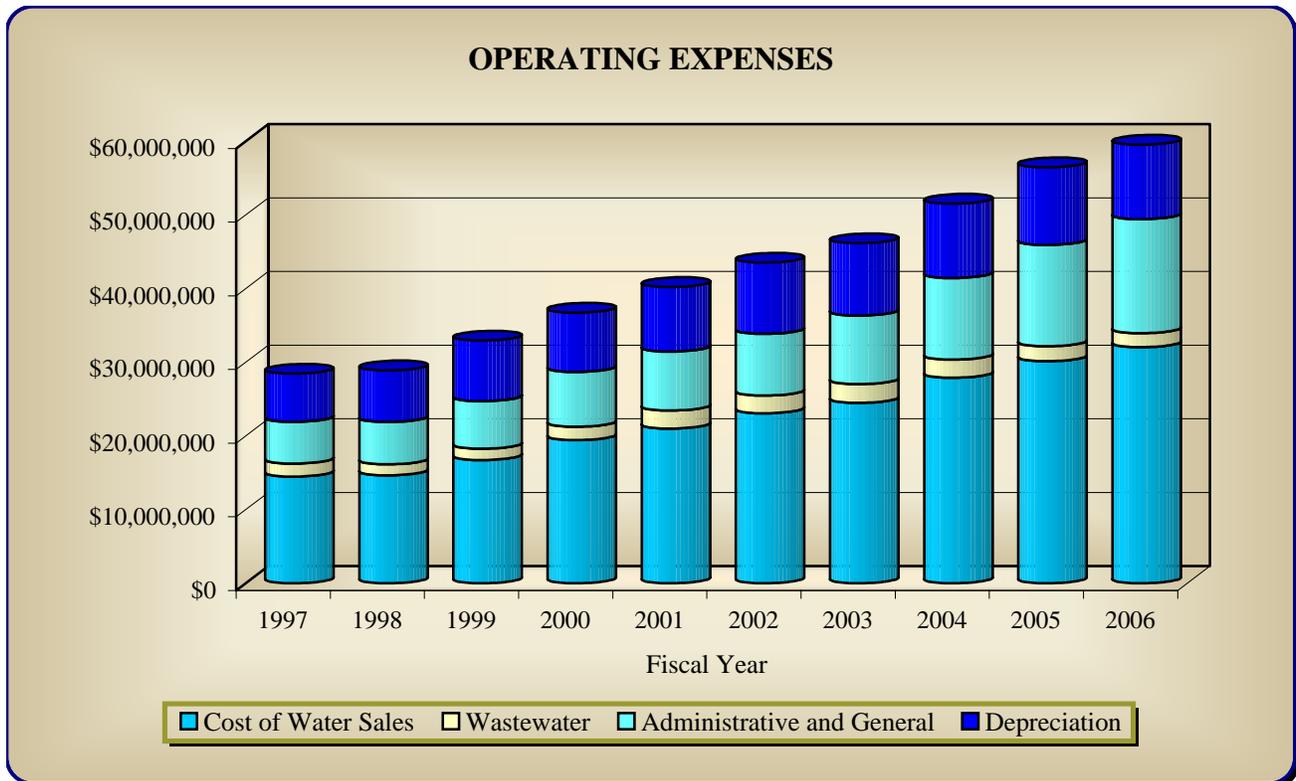
(1) During the year ended June 30, 2001, the District Board authorized three separate potable water rebates totaling \$9,700,089. The rebates were accounted for as a reduction of Water Sales.

*Source: Otay Water District*



## OPERATING EXPENSES BY FUNCTION LAST TEN FISCAL YEARS

<u>Year</u>	<u>Water Sales</u>	<u>Wastewater</u>	<u>Administrative and General</u>	<u>Depreciation</u>	<u>Total</u>	<u>Change</u>
2006	\$ 32,043,395	\$ 1,899,957	\$ 15,477,287	\$ 10,107,455	\$ 59,528,094	5.5%
2005	30,127,087	2,050,643	13,747,611	10,524,134	56,449,475	9.6%
2004	27,899,376	2,446,603	11,081,599	10,088,518	51,516,096	11.6%
2003	24,477,487	2,548,881	9,310,381	9,806,737	46,143,486	6.1%
2002	23,070,355	2,404,720	8,388,045	9,645,918	43,509,038	8.2%
2001	20,998,534	2,447,034	8,014,245	8,743,236	40,203,049	9.5%
2000	19,416,956	1,833,775	7,444,505	8,023,280	36,718,516	11.5%
1999	16,730,248	1,519,670	6,466,836	8,225,750	32,942,504	14.0%
1998	14,658,041	1,488,123	5,737,077	7,007,965	28,891,206	1.6%
1997	14,487,786	1,766,317	5,655,773	6,527,408	28,437,284	-

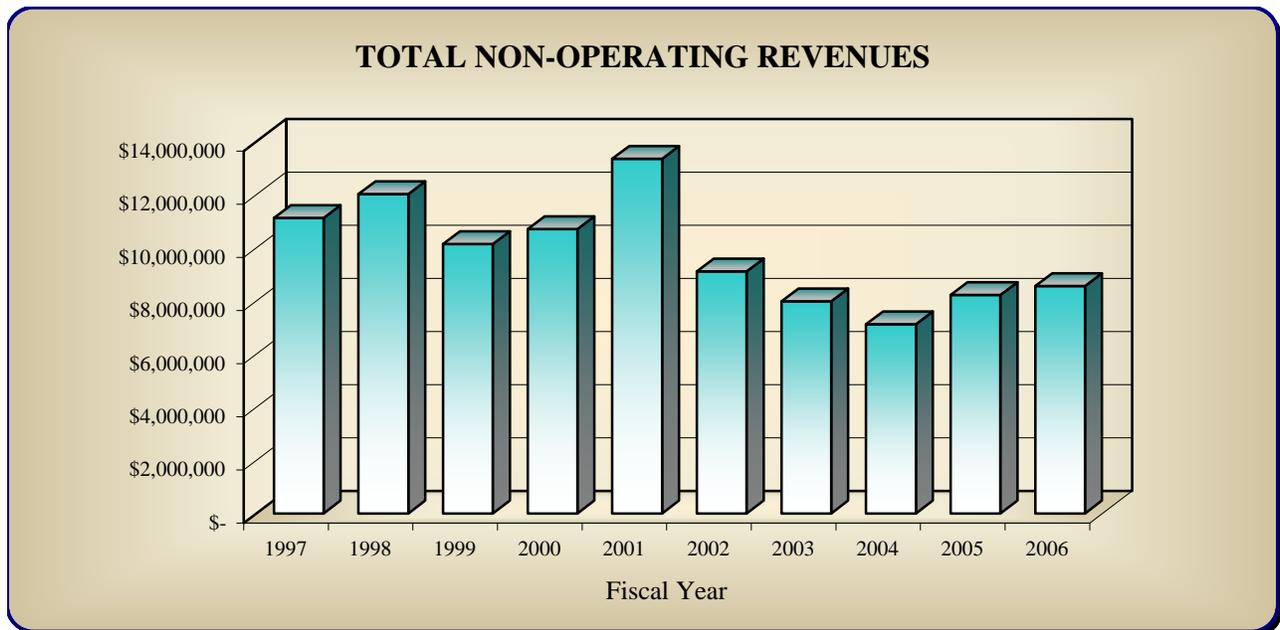


Source: Otay Water District



## NON-OPERATING REVENUES BY SOURCE LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Investment Income</u>	<u>Taxes and Assessments</u>	<u>Availability Charges</u>	<u>Miscellaneous</u>	<u>Total</u>	<u>Percent Change</u>
2006	\$ 3,188,645	\$ 2,779,635	\$ 609,099	\$ 1,978,632	\$ 8,556,011	4.1%
2005	2,052,292	2,326,526	556,590	3,285,128 (1)	8,220,536	15.5%
2004	1,097,449	3,071,685	1,132,278	1,816,967	7,118,379	-10.8%
2003	2,578,231	2,600,411	1,069,750	1,731,384	7,979,776	-12.4%
2002	4,466,383	2,381,170	1,052,222	1,207,920	9,107,695	-31.8%
2001	7,606,185	3,054,917	1,116,084	1,568,874	13,346,060	24.7%
2000	5,088,516	3,164,910	949,612	1,499,818	10,702,856	5.6%
1999	5,142,904	2,523,746	1,084,910	1,387,088	10,138,648	-15.7%
1998	6,462,771	2,795,952	1,284,987	1,476,786	12,020,496	8.1%
1997	6,288,527	3,034,605	1,084,262	710,784	11,118,178	-



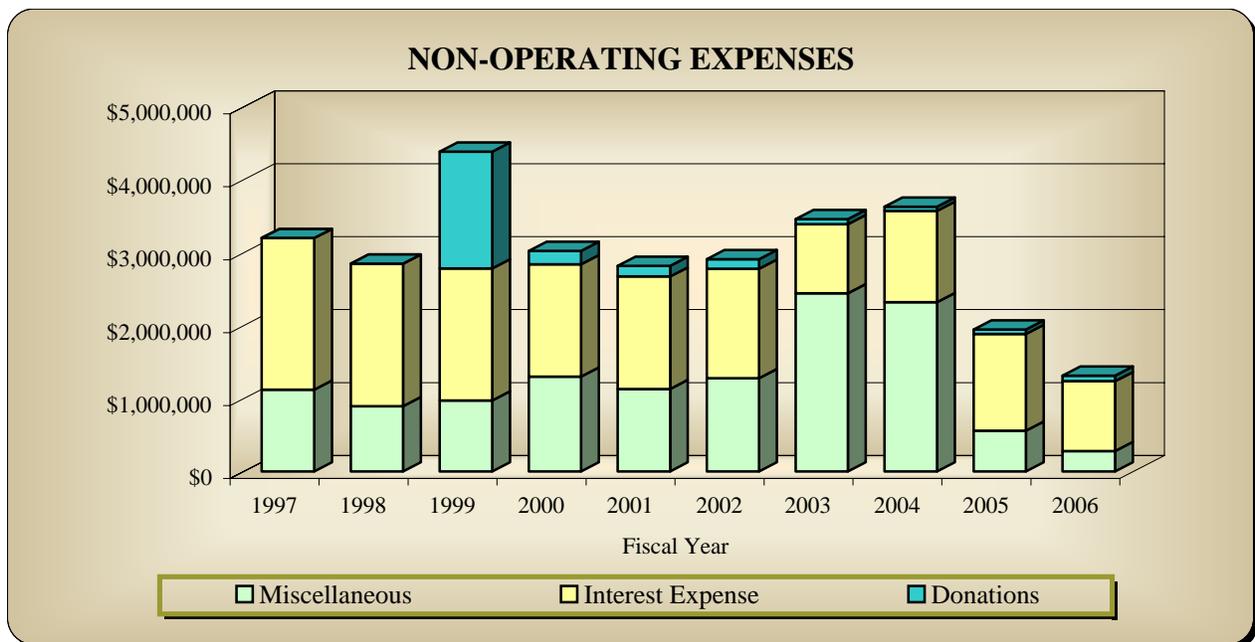
(1) The District sold capital assets during Fiscal Year 2005 which resulted in a gain of \$2,196,655.

*Source: Otay Water District*



## NON-OPERATING EXPENSES BY FUNCTION LAST TEN FISCAL YEARS

Fiscal Year	Donations (1)	Interest Expense	Miscellaneous	Total	Percent Change
2006	\$ 75,000	\$ 959,225	\$ 279,506	\$ 1,313,731	-32.6%
2005	61,411	1,327,844	559,799	1,949,054	-46.4%
2004	59,220	1,252,307	2,322,360	3,633,887	4.9%
2003	68,756	947,099	2,446,872	3,462,727	18.8%
2002	131,225	1,503,063	1,280,104	2,914,392	3.3%
2001	145,500	1,543,336	1,131,114	2,819,950	-6.8%
2000	184,507	1,540,592	1,301,961	3,027,060	-31.0%
1999	1,602,883	1,809,747	974,558	4,387,188	53.9%
1998	-	1,952,742	897,011	2,849,753	-11.0%
1997	-	2,080,744	1,121,864	3,202,608	-



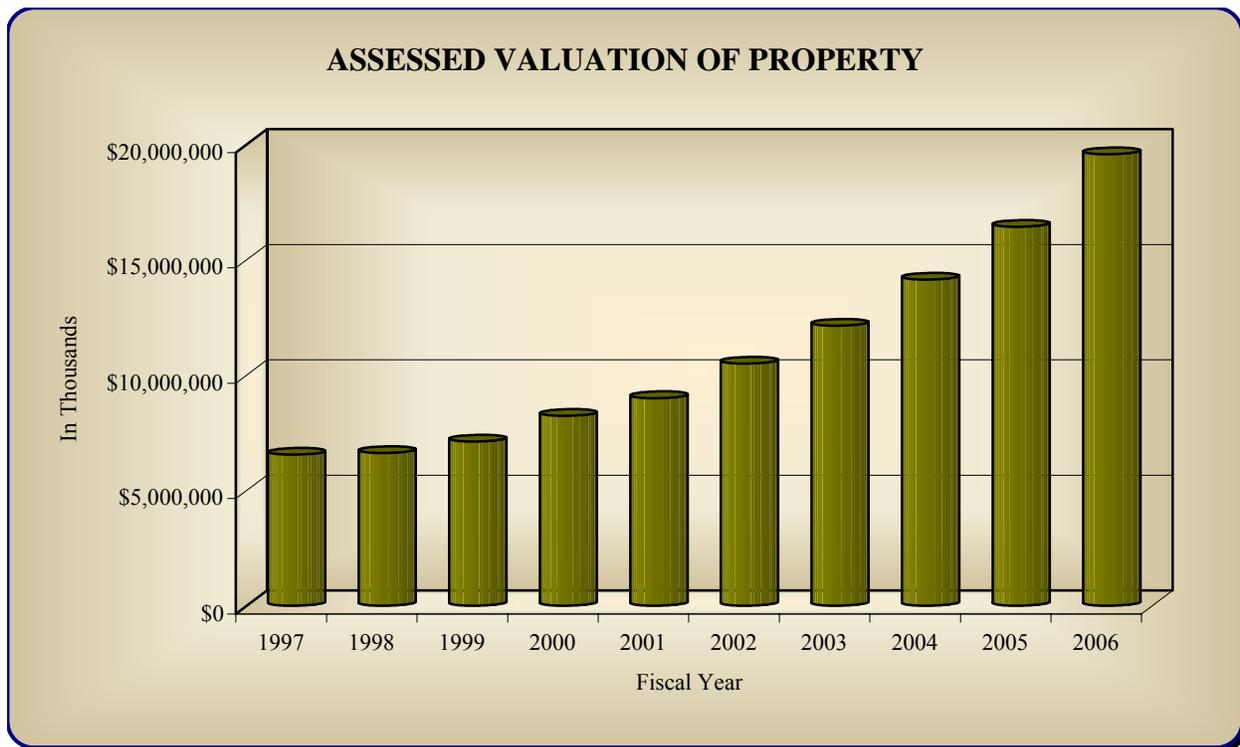
(1) Donations are contributions to the Water Conservation Authority formed in 1999. See Note 10 in the Notes to Financial Statements for more information.

Source: Otay Water District



## ASSESSED VALUATION OF TAXABLE PROPERTY WITHIN THE DISTRICT LAST TEN FISCAL YEARS

Fiscal Year	Secured	Unsecured	Total	Percent Change
2006	\$ 19,204,029,184	\$ 361,636,280	\$ 19,565,665,464	19.13%
2005	16,121,465,817	301,937,884	16,423,403,701	16.23%
2004	13,833,852,366	296,691,701	14,130,544,067	16.50%
2003	11,786,410,218	343,253,933	12,129,664,151	15.63%
2002	10,239,985,732	249,933,698	10,489,919,430	16.67%
2001	8,767,643,482	223,676,433	8,991,319,915	9.33%
2000	7,809,527,552	414,404,800	8,223,932,352	15.61%
1999	6,953,623,384	159,752,464	7,113,375,848	7.51%
1998	6,480,364,157	136,236,552	6,616,600,709	1.19%
1997	6,408,701,949	129,954,347	6,538,656,296	-

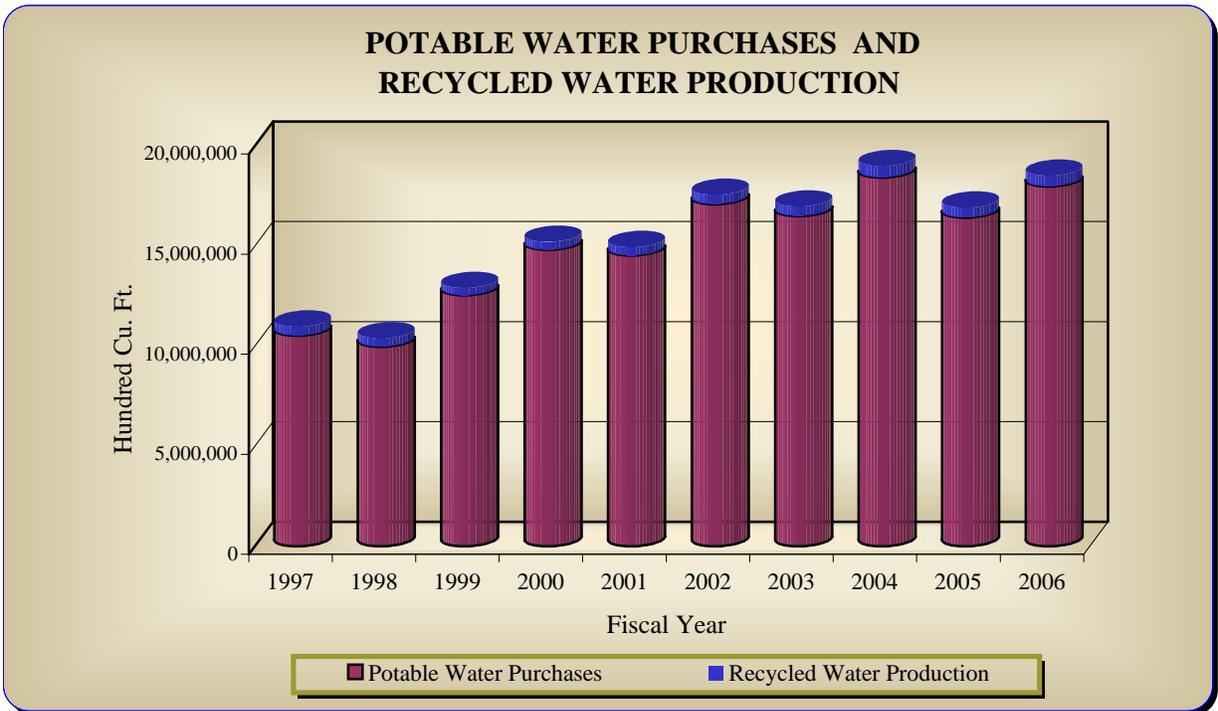


Source: County of San Diego Auditor and Controller



## WATER PURCHASES, PRODUCTION, AND SALES LAST TEN FISCAL YEARS

Fiscal Year	Potable Water (1)		Recycled Water (1)	
	Per 100 Cubic Feet		Per 100 Cubic Feet	
	Purchases	Sales	Production	Sales (2)
2006	17,972,146	14,723,988	537,400	1,722,057
2005	16,412,711	13,708,001	501,114	1,447,020
2004	18,424,007	14,711,176	568,589	1,492,453
2003	16,486,502	13,613,885	486,739	1,109,691
2002	17,084,537	13,723,241	471,581	1,000,007
2001	14,521,902	12,057,399	418,873	674,670
2000	14,801,644	12,023,682	408,636	564,843
1999	12,537,309	10,335,051	363,029	390,603
1998	9,963,479	9,164,466	425,407	323,549
1997	10,521,918	9,791,072	451,669	390,357



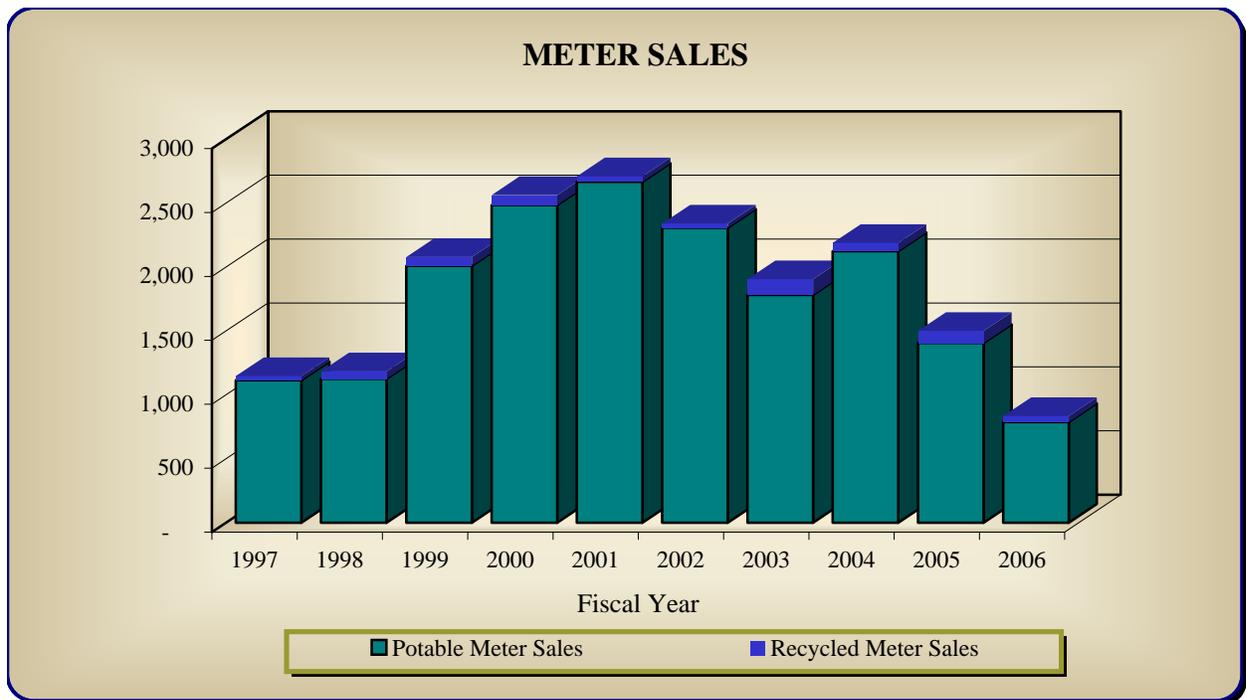
(1) Rates are not presented on this schedule because the District has multiple water rates for various meter sizes and cannot easily calculate a weighted average rate. See Water and Sewer rates on page 65 for meter sizes and their corresponding water rates.

(2) Recycled water sales are supplemented by potable water purchases.



## METER SALES BY TYPE LAST TEN FISCAL YEARS

Fiscal Year	Potable	Recycled	Total
2006	788	47	835
2005	1,406	95	1,501
2004	2,125	64	2,189
2003	1,782	123	1,905
2002	2,308	33	2,341
2001	2,667	43	2,710
2000	2,485	78	2,563
1999	2,010	69	2,079
1998	1,126	58	1,184
1997	1,115	32	1,147

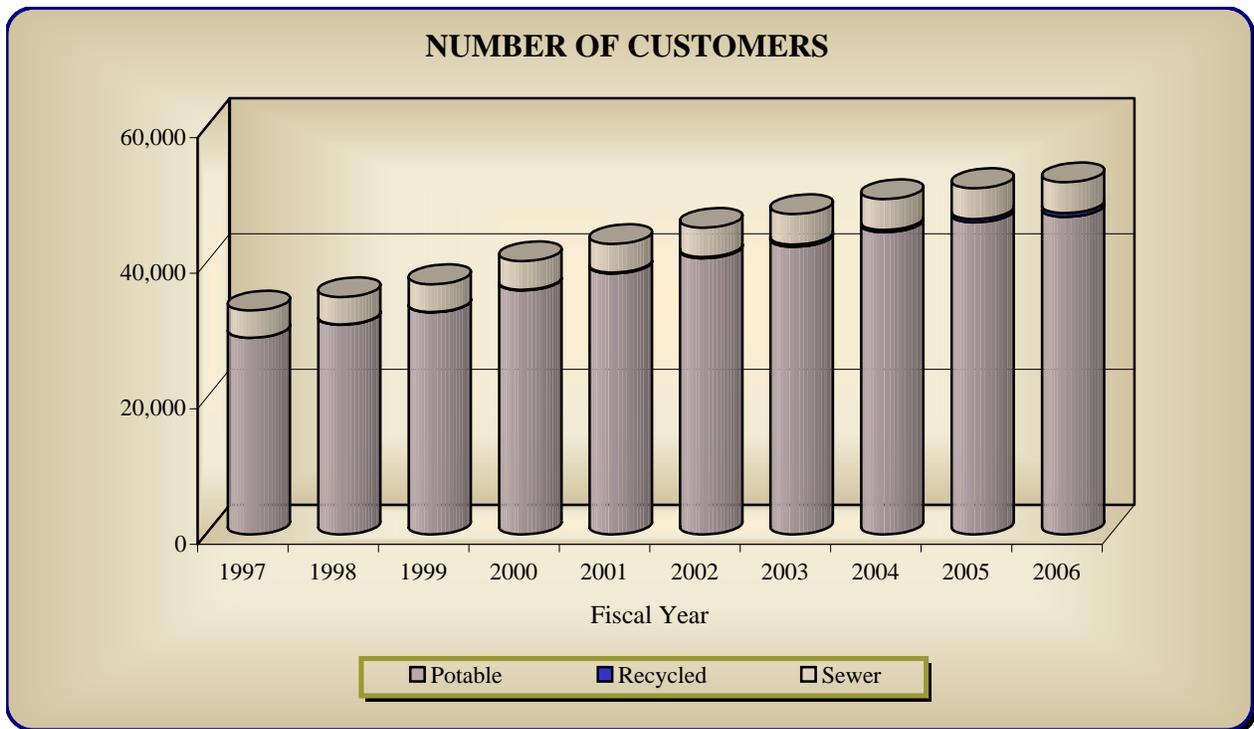


*Source: Otay Water District*



## NUMBER OF CUSTOMERS BY SERVICE TYPE LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Potable</u>	<u>Recycled</u>	<u>Sewer</u>	<u>Total</u>
2006	46,851	558	4,571	51,980
2005	46,042	483	4,570	51,095
2004	44,583	348	4,548	49,479
2003	42,438	312	4,510	47,260
2002	40,732	189	4,342	45,263
2001	38,502	128	4,240	42,870
2000	36,005	106	4,199	40,310
1999	32,773	59	4,094	36,926
1998	30,943	44	4,030	35,017
1997	29,021	20	3,996	33,037

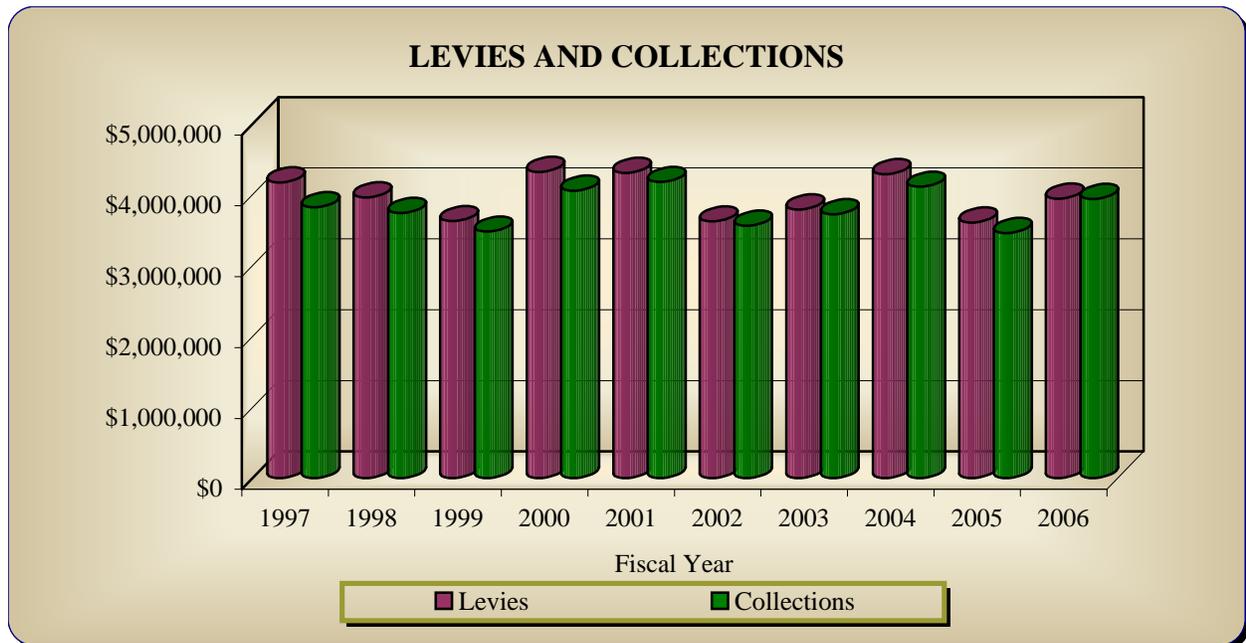


*Source: Otay Water District*



## PROPERTY TAX LEVIES AND COLLECTIONS LAST TEN FISCAL YEARS

Fiscal Year	LEVY (1)			Total Collections (1)	Net Receivable (2)	Percent Collected
	1% Property Tax	Special Assessments	Total Levy			
2006	1,420,049	2,519,927	3,939,976	3,935,983	3,993	100%
2005	1,173,319	2,430,267	3,603,586	3,455,852	147,734	96%
2004	1,844,604	2,442,356	4,286,961	4,108,581	178,380	96%
2003	1,541,362	2,246,865	3,788,227	3,721,776	66,451	98%
2002	1,314,354	2,305,191	3,619,545	3,558,105	61,440	98%
2001	1,134,675	3,171,206	4,305,882	4,176,331	129,551	97%
2000	997,055	3,321,696	4,318,751	4,053,482	265,269	94%
1999	870,451	2,753,571	3,624,023	3,475,903	148,120	96%
1998	801,536	3,158,394	3,959,929	3,740,021	219,908	94%
1997	769,016	3,401,857	4,170,874	3,818,801	352,073	92%



(1) Levy and collections include Current Secured, Current Unsecured and Supplemental Homeowners Exemptions.  
 (2) Net Receivable becomes a prior period balance in the next fiscal year.

Source: Otay Water District



## WATER AND SEWER RATES LAST TEN FISCAL YEARS

Base Rate (Meter Size)	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
<b><u>Residential</u></b>										
3/4"	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25
1"	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50
1.5"	32.50	32.50	32.50	32.50	32.50	32.50	32.50	32.50	32.50	32.50
<b><u>Non- Residential &amp; Others</u> (1)</b>										
3/4"	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
1"	30.80	30.80	30.80	30.80	30.80	30.80	30.80	30.80	30.80	30.80
1.5"	43.30	43.30	43.30	43.30	43.30	43.30	43.30	43.30	43.30	43.30
2"	54.20	54.20	54.20	54.20	54.20	54.20	54.20	54.20	54.20	54.20
3"	87.20	87.20	87.20	87.20	87.20	87.20	87.20	87.20	87.20	87.20
4"	99.80	99.80	99.80	99.80	99.80	99.80	99.80	99.80	99.80	99.80
6"	199.50	199.50	199.50	199.50	199.50	199.50	199.50	199.50	199.50	199.50
10"	380.50	380.50	380.50	380.50	380.50	380.50	380.50	380.50	380.50	380.50
<b><u>Fire Services</u></b>										
All Types	21.20	21.20	21.20	21.20	21.20	21.20	21.20	21.20	21.20	21.20
<b>Usage Rate</b>										
<i>Residential:</i>										
Tier 1 (1-5)	1.05	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01
Tier 2 (6-25)	1.73	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.65	1.65
Tier 3 (26-35)	1.88	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.79	1.79
Tier 4 (36-50) (2)	2.75	2.65	2.13	2.13	2.13	2.13	2.13	2.13	2.11	2.11
Tier 5 (51+)	-	-	2.65	2.65	2.65	2.65	2.65	2.65	2.62	2.62
<i>Master Meter:</i>										
Tier 1 (1-5)	1.73	1.67	1.78	1.78	1.78	1.78	1.78	1.78	1.76	1.76
Tier 2 (6-25)	1.88	1.81	-	-	-	-	-	-	-	-
Tier 3 (16+)	2.75	2.65	-	-	-	-	-	-	-	-
Publicly-Owned	1.93	1.86	1.86	1.86	1.86	1.86	1.86	1.86	1.84	1.84
Commercial & Others (3)	1.85	1.78	1.78	1.78	1.78	1.78	1.78	1.78	1.76	1.76
Recycled (Commercial)	1.57	1.51	1.51	1.51	1.51	1.51	1.51	1.51	1.50	1.50
Recycled (Publicly-Owned)	1.65	1.59	1.59	1.59	1.59	1.59	1.59	1.59	1.58	1.58
Sewer Rates	30.90	26.90	23.35	20.95	20.95	20.95	20.95	20.95	20.95	20.95

**Note:** Above rates do not include Infrastructure Access Charge, a pass-through charge from CWA and MWD.

- (1) For services provided through one meter to more than one occupancy, an additional fee of \$3.21 will be charged for each unit in a multiple unit residential, commercial or industrial building.
- (2) Effective January 2005, Tier 5 has been eliminated and replaced by Tier 4 (36+).
- (3) Others include Landscaping, Agricultural and Temporary Meters. Agricultural customers under Interim Agricultural Water Program (IAWP) shall receive a \$0.33 discount per Hundred Cubic Feet (HCF)

**Source:** Otay Water District



## TEN LARGEST CUSTOMERS CURRENT YEAR AND NINE YEARS AGO

### FISCAL YEAR 2006

Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	\$ 1,320,142	3.0%
2. State of California	Publicly Owned	948,696	2.2%
3. McMillin	Construction (Potable)	666,771	1.5%
4. County of San Diego	Publicly Owned	665,694	1.5%
5. Eastlake III	Business/Irrigation (Reclaimed)	502,189	1.1%
6. Country Hills Apartments	Residential (Master Meter)	461,985	1.1%
7. Country Club Eastlake	Irrigation (Reclaimed)	417,029	1.0%
8. Steele Canyon	Irrigation (Potable Permanent)	319,216	0.7%
9. California Bank & Trust	Irrigation (Reclaimed)	284,783	0.7%
10. The EastLake Company	Construction (Potable)	214,593	0.5%
Total (10 Largest)		\$ 5,801,098	13.3%
Other Customers		\$ 37,954,512	86.7%
Total Water Sales		\$ 43,755,610	100.0%

### FISCAL YEAR 2004 (1)

Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	\$ 1,127,011	2.9%
2. State of California	Publicly Owned	849,140	2.2%
3. County of San Diego	Publicly Owned	725,507	1.9%
4. Steele Canyon	Irrigation (Potable Permanent)	526,582	1.3%
5. Eastlake III	Business/Irrigation (Reclaimed)	419,942	1.1%
6. Singing Hills	Residential/Irrigation (Potable Permanent)	390,720	1.0%
7. McMillin	Construction (Potable Temporary)	377,591	1.0%
8. Country Club Eastlake	Irrigation (Reclaimed Permanent)	325,036	0.8%
9. California Bank & Trust	Irrigation (Reclaimed Permanent)	243,689	0.6%
10. Sweetwater School District	School/Irrigation (Reclaimed Publicly Owned)	224,054	0.6%
Total (10 Largest)		\$ 5,209,273	13.3%
Other Customers		\$ 33,835,439	86.7%
Total Water Sales		\$ 39,044,712	100.0%

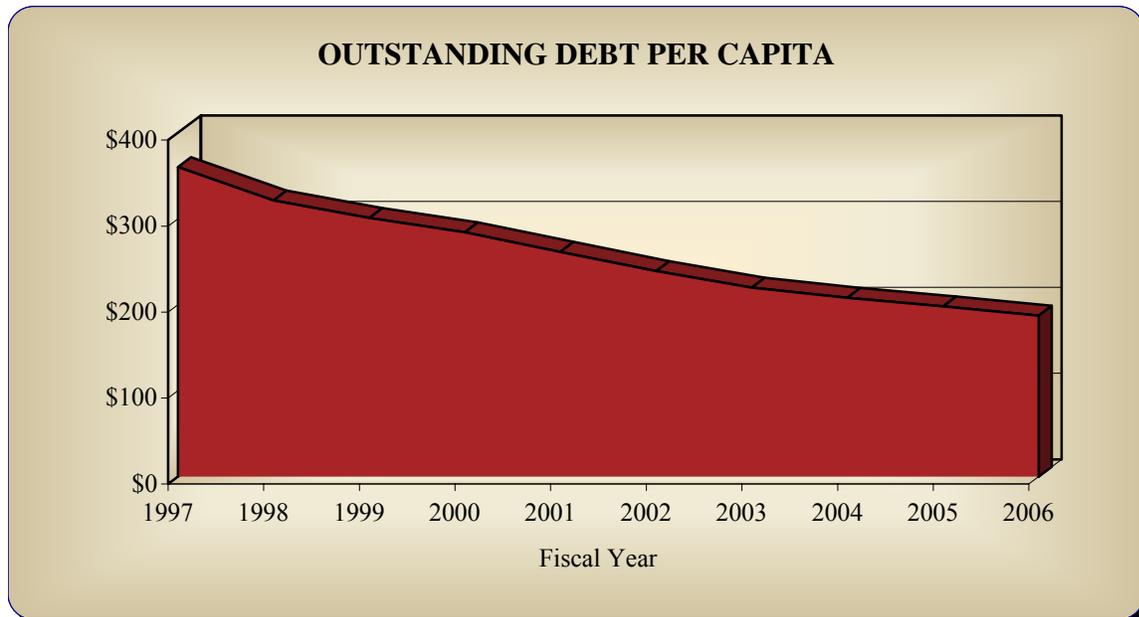
(1) Because the District did not begin tracking ten largest customers until Fiscal Year 2004, data for nine years ago was not available. Accordingly, the current Fiscal Year and Fiscal Year 2004 are presented.

*Source: Otay Water District*



## RATIOS OF OUTSTANDING DEBT BY TYPE LAST TEN FISCAL YEARS

Fiscal Year	Population Estimate	GO Bond	COPS	Notes	Capital Leases	Total	Per Capita	As a Share of Personal Income (1)
2006	189,000	\$ 8,776,755	\$24,909,352	1,659,037	51,589	\$35,396,733	187.28	0.49%
2005	186,000	9,093,482	25,653,607	1,956,871	100,666	36,804,626	197.87	0.51%
2004	180,000	9,395,209	25,666,312	2,244,633	147,343	37,453,497	208.07	0.55%
2003	176,000	9,681,937	26,298,239	2,522,665	191,742	38,694,583	219.86	0.62%
2002	166,000	9,953,664	26,915,166	2,791,295	-	39,660,125	238.92	0.69%
2001	156,000	10,210,392	27,517,093	3,050,841	-	40,778,326	261.40	0.77%
2000	147,000	10,452,118	28,004,021	3,301,610	-	41,757,749	284.07	0.87%
1999	142,000	10,683,845	28,480,948	3,543,899	-	42,708,692	300.77	0.99%
1998	137,000	11,300,572	28,942,243	3,777,994	-	44,020,809	321.32	1.13%
1997	130,000	13,397,230	29,400,717	4,004,173	-	46,802,120	360.02	1.37%



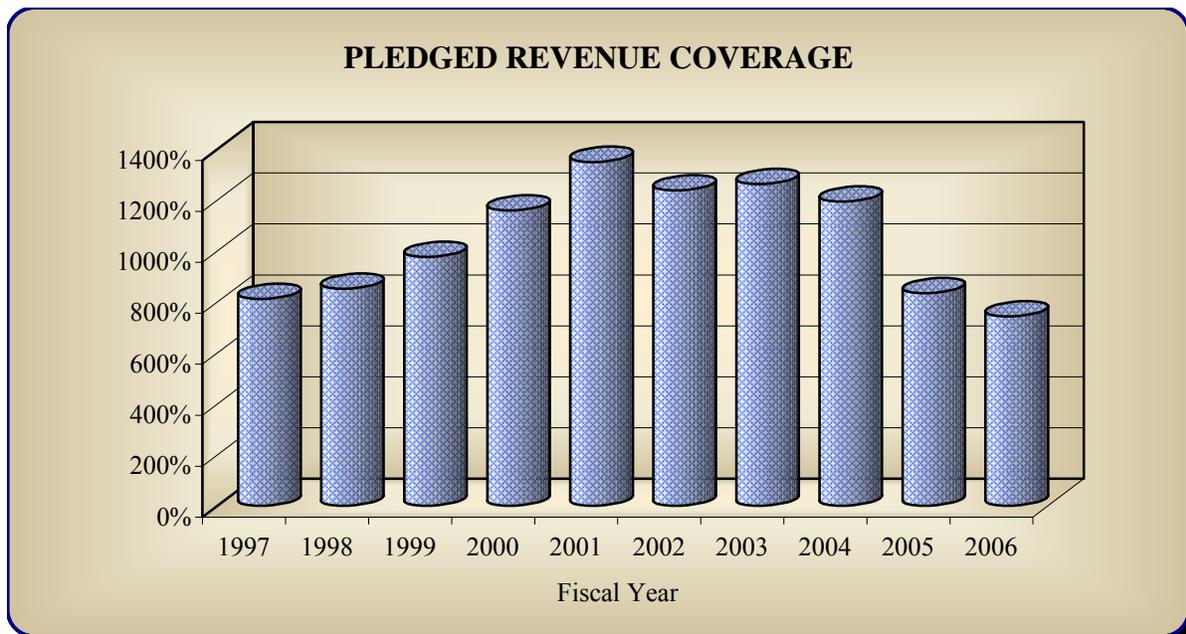
(1) See the Demographics and Economic Statistics schedule on page 72 for personal income data. Because per capita personal income data were not available for 2006 the percentage for 2006 was calculated using per capita personal income for 2005.

*Source: Otay Water District*



## PLEDGED REVENUE COVERAGE LAST TEN FISCAL YEARS

Fiscal Year	Adjusted Revenue (1)	Adjusted Operating Expense (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage Factor (3)
				Principal	Interest	Total	
2006	\$ 59,990,213	\$ 47,595,682	\$ 12,394,531	\$745,000	\$924,490	\$1,669,490	742%
2005	56,597,040	43,936,109	12,660,931	650,000	869,715	1,519,715	833%
2004	57,195,289	38,980,975	18,214,314	635,000	891,796	1,526,796	1,193%
2003	53,077,164	33,787,868	19,289,296	620,000	908,416	1,528,416	1,262%
2002	51,604,999	31,904,402	19,700,597	605,000	987,467	1,592,467	1,237%
2001	51,547,298	29,012,779	22,534,519	490,000	1,181,032	1,671,032	1,349%
2000	46,922,341	26,861,461	20,060,880	480,000	1,252,054	1,732,054	1,158%
1999	39,509,478	23,197,084	16,312,394	470,000	1,202,210	1,672,210	975%
1998	35,474,313	20,395,118	15,079,195	460,000	1,311,930	1,771,930	851%
1997	34,563,557	20,143,559	14,419,998	450,000	1,327,943	1,777,943	811%

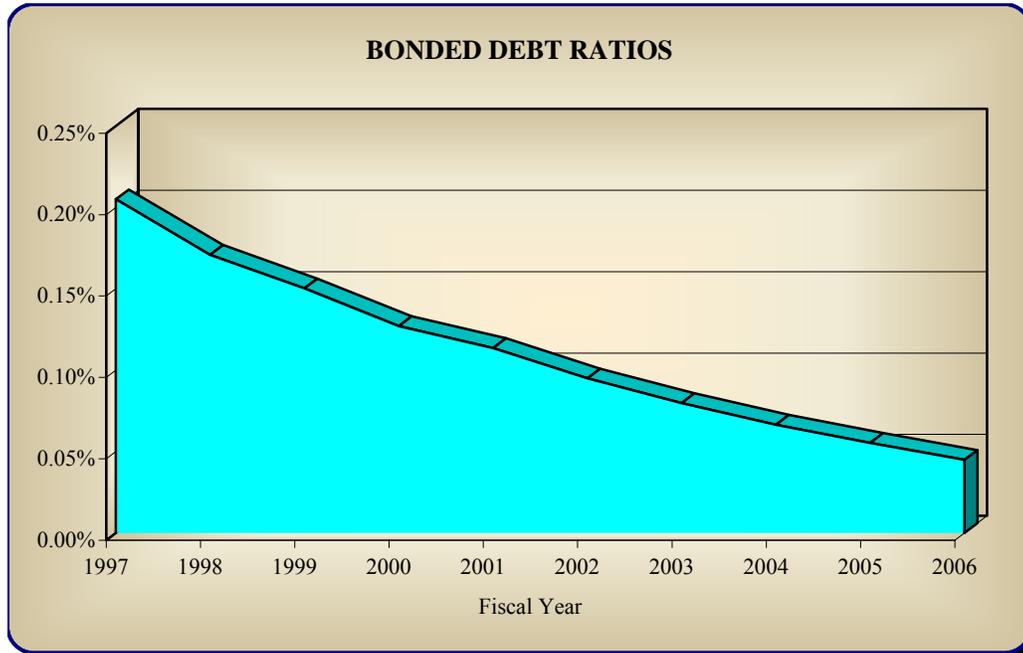


- (1) Adjusted revenues exclude sewer revenues and taxes collected for Improvement District 27 and are inclusive of capacity fees.
- (2) Adjusted operating expenses exclude sewer expenses and depreciation expense.
- (3) The District's bond covenants require a minimum coverage factor of 120%.



## RATIOS OF GENERAL BONDED DEBT OUTSTANDING LAST TEN FISCAL YEARS

<b>Fiscal Year</b>	<b>Population Estimate</b>	<b>Assessed Valuation</b>	<b>Net Bonded Debt</b>	<b>Net Bonded Debt to Assessed Valuation</b>	<b>Net Bonded Debt Per Capita</b>
2006	189,000	\$ 19,565,665,464	\$8,776,755	0.04%	46.44
2005	186,000	16,423,403,701	9,093,482	0.06%	48.89
2004	180,000	14,130,544,067	9,395,209	0.07%	52.20
2003	176,000	12,129,664,151	9,681,937	0.08%	55.01
2002	166,000	10,489,919,430	9,953,664	0.09%	59.96
2001	156,000	8,991,319,915	10,210,392	0.11%	65.45
2000	147,000	8,223,932,352	10,452,118	0.13%	71.10
1999	142,000	7,113,375,848	10,683,845	0.15%	75.24
1998	137,000	6,616,600,709	11,300,572	0.17%	82.49
1997	130,000	6,538,656,296	13,397,230	0.20%	103.06



*Source: Otay Water District*



## COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT JUNE 30, 2006

2005-06 Assessed Valuation:	\$ 19,565,665,464.00
Redevelopment Incremental Valuation:	185,562,778
Adjusted Assessed Valuation:	\$ 19,380,102,686.00

<b>OVERLAPPING TAX AND ASSESSMENT DEBT:</b>	Total Debt 6/30/2006	% Applicable (1)	District's Share of Debt 6/30/06
Metropolitan Water District	\$ 389,565,000	1.32%	\$ 5,153,945
<b>Otay Municipal Water District Improvement District No. 25</b>	<b>265,000</b>	<b>100</b>	<b>265,000</b>
<b>Otay Municipal Water District Improvement District No. 27</b>	<b>9,590,000</b>	<b>100</b>	<b>9,590,000</b>
Padre Dam Municipal Water District Improvement District No. CB	340,000	0.028	95
Grossmont-Cuyamaca Community College District	145,599,623	17.658	25,709,981
Southwestern Community College District	90,570,090	44.067	39,911,522
Grossmont Union High School District	179,890,422	18.158	32,664,503
Sweetwater Union High School District	82,615,000	51.699	42,711,129
Chula Vista City School District	88,410,000	61.723	54,569,304
San Ysidro School District	57,784,363	46.252	26,726,424
Other School Districts	1,624,007,604	Various	28,762,500
City of San Diego	11,520,000	0.893	102,874
San Diego Open Space Park Facilities District No. 1	19,930,000	0.893	177,975
City of Chula Vista Community Facilities District	274,590,000	100	274,590,000
Chula Vista City School District Community Facilities Districts	7,700,000	100	7,700,000
Sweetwater Union High School District Community Facilities Districts	198,398,838	2.523-100	185,269,055
City 1915 Act Bonds (Estimate)	79,049,263	Various	58,787,136
<b>TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>792,691,443</b>
Less: San Diego Open Space Park Facilities District No. 1 (self-supporting)			177,975
<b>TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$ 792,513,468</b>

### **DIRECT AND OVERLAPPING GENERAL FUND DEBT:**

San Diego County General Fund Obligations	448,037,147	6.83%	30,578,535
San Diego County Pension Obligations	1,231,282,916	6.825	84,035,059
San Diego Superintendent of Schools Certificates of Participation	12,495,000	6.825	852,784
<b>Otay Water District Certificates of Participation</b>	<b>24,925,000</b>	<b>100</b>	<b>24,925,000</b>
Southwestern Community College District General Fund Obligation:	2,265,000	44.067	998,118
Grossmont Union High School District Certificates of Participation	1,830,000	18.158	332,291
Sweetwater Union High School District Certificates of Participation	16,040,000	51.699	8,292,520
Chula Vista City School District Certificates of Participator	135,985,000	61.723	83,934,022
San Ysidro School District Certificates of Participation	26,185,000	46.252	12,111,086
Other School District Certificates of Participation	15,500,000	Various	3,798,789
City of Chula Vista Certificates of Participation	123,915,000	70.854	87,798,734
City of Chula Vista Pension Obligations	11,795,000	70.854	8,357,229
City of San Diego General Fund Obligations	498,040,000	0.893	4,447,497
San Miguel Consolidated Fire Protection District Certificates of Participator	9,120,000	56.951	5,193,931
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>355,655,595</b>
Less: <b>Otay Water District Certificates of Participation (self-supporting)</b>			<b>24,925,000</b>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$ 330,730,595</b>
 <b>GROSS COMBINED TOTAL DEBT (2)</b>			 <b>\$ 1,148,347,038</b>
<b>NET COMBINED TOTAL DEBT</b>			<b>\$ 1,123,244,063</b>

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the district

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

### Ratios to 2005-06 Assessed Valuation:

Total Gross Overlapping Tax and Assessment Debt	4.05%
Total Net Overlapping Tax and Assessment Debt	4.05%

### Ratios to Adjusted Assessed Valuation:

<b>Gross Combined Direct Debt (\$24,925,000)</b>	<b>0.13%</b>
<b>Net Combined Direct Debt</b>	<b>0.00%</b>
Gross Combined Total Debt	5.93%
Net Combined Total Debt	5.80%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: \$10

Source: California Municipal Statistics, Inc. and Otay Water District



## PRINCIPAL EMPLOYERS CURRENT AND NINE YEARS AGO

<u>Employer</u>	<u>2006</u>		<u>1997</u>	
	<u>Employees (1)</u>	<u>Rank</u>	<u>Employees (1)</u>	<u>Rank</u>
Federal Government of State of California	10,000+	1	-	-
San Diego Unified School District	10,000+	2	10,000+	3
University of California San Diego	10,000+	3	10,000+	6
County of San Diego	10,000+	4	10,000+	2
Sharp Healthcare	10,000+	5	10,000+	4
San Diego State University	5,000-9,999	6	-	-
Kaiser Permanente Medical Care Program	5,000-9,999	7	-	-
Sempra	5,000-9,999	8	-	-
SBC	5,000-9,999	9	-	-
Qualcomm	5,000-9,999	10	-	-
City of San Diego	-	-	10,000+	1
United States Government/Civilian	-	-	10,000+	5
San Diego Community College District	-	-	5,000-9,999	7
Scripps Institution of Medicine & Science	-	-	5,000-9,999	8
State of California	-	-	5,000-9,999	9
US Postal Service/San Diego Division	-	-	5,000-9,999	10

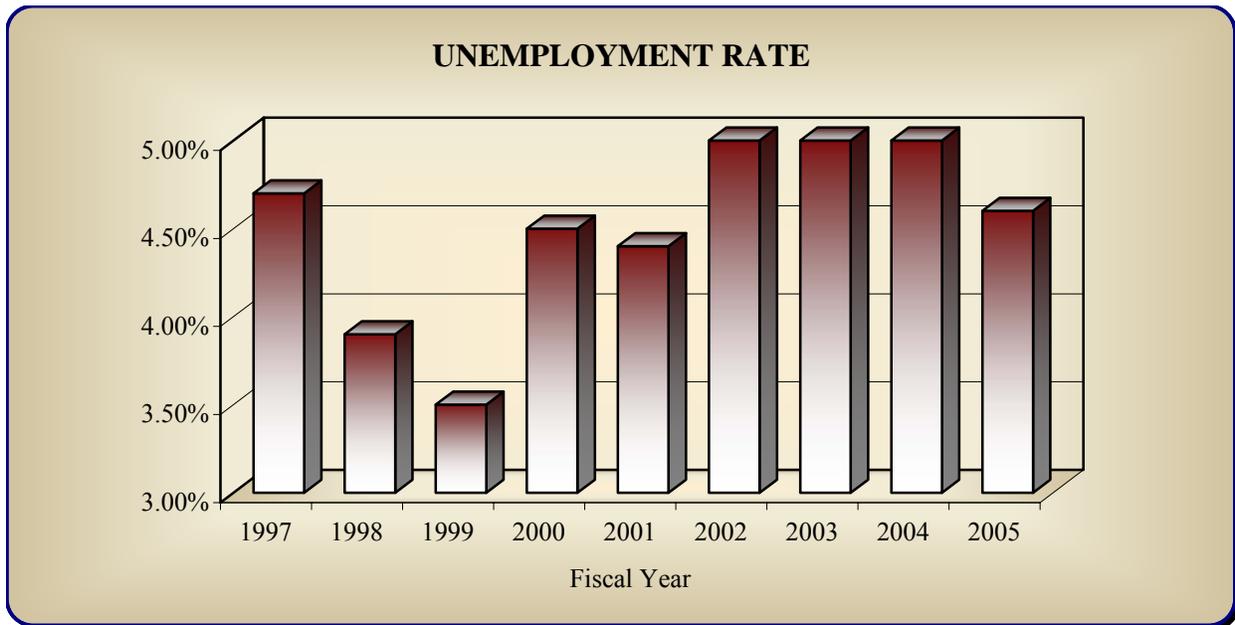
(1) The number of employees was provided as a range. As a result, the percentage of total employees by employer cannot be calculated.

**Source:** *County of San Diego*



## DEMOGRAPHIC AND ECONOMIC STATISTICS LAST TEN FISCAL YEARS

Year	Population	Personal Income	Per Capita Personal Income	Unemployment Rate
2006	(1)			-
2005	(2)	296,410,404	\$ 38,614	4.60%
2004	293,656,842	\$ 111,434,714	37,965	5.10%
2003	290,656,005	104,050,119	35,620	5.60%
2002	287,984,799	100,655,726	34,719	5.60%
2001	285,107,923	97,009,480	33,886	4.40%
2000	282,193,477	92,654,006	32,803	4.50%
1999	275,130,000	84,346,910	30,236	3.50%
1998	272,690,813	77,968,184	28,490	3.90%
1997	270,248,003	70,535,060	26,196	4.70%



(1) Information for Fiscal Year 2006 was not yet available at the time of this report.

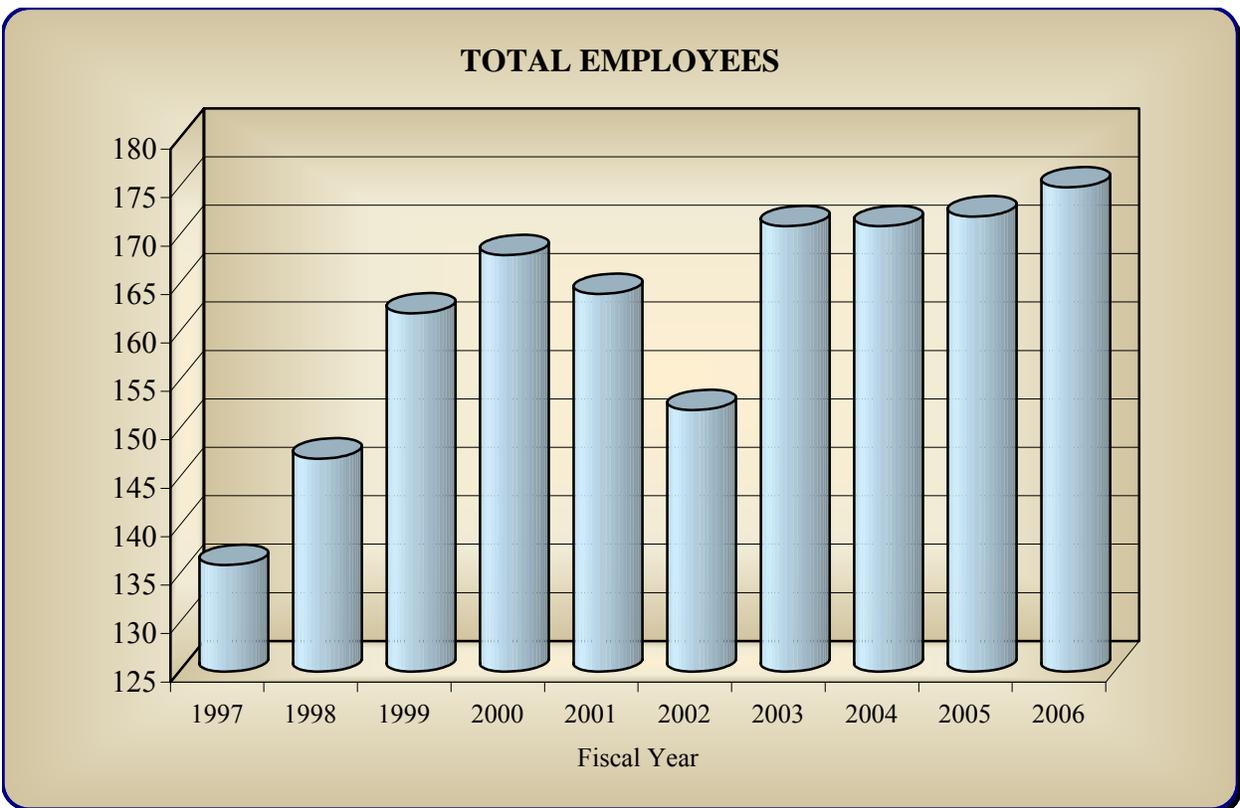
(2) Personal income data for Fiscal Year 2005 not yet available.

*Source: County of San Diego*



## NUMBER OF EMPLOYEES BY FUNCTION LAST TEN FISCAL YEARS

<u>Department</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
General Manager	6	6	4	4	3	6	8	8	6	6
Finance	34	34	33	32	32	33	33	32	29	21
Operations/Maintenance	72	71	70	70	71	73	74	71	68	67
Engineering and Planning	15	13	33	31	24	27	32	31	28	26
Administrative Services	19	20	21	24	16	19	14	14	12	12
IT and Strategic Planning	12	11	10	10	6	6	7	6	4	4
Development Services (1)	17	17	-	-	-	-	-	-	-	-
Total	175	172	171	171	152	164	168	162	147	136



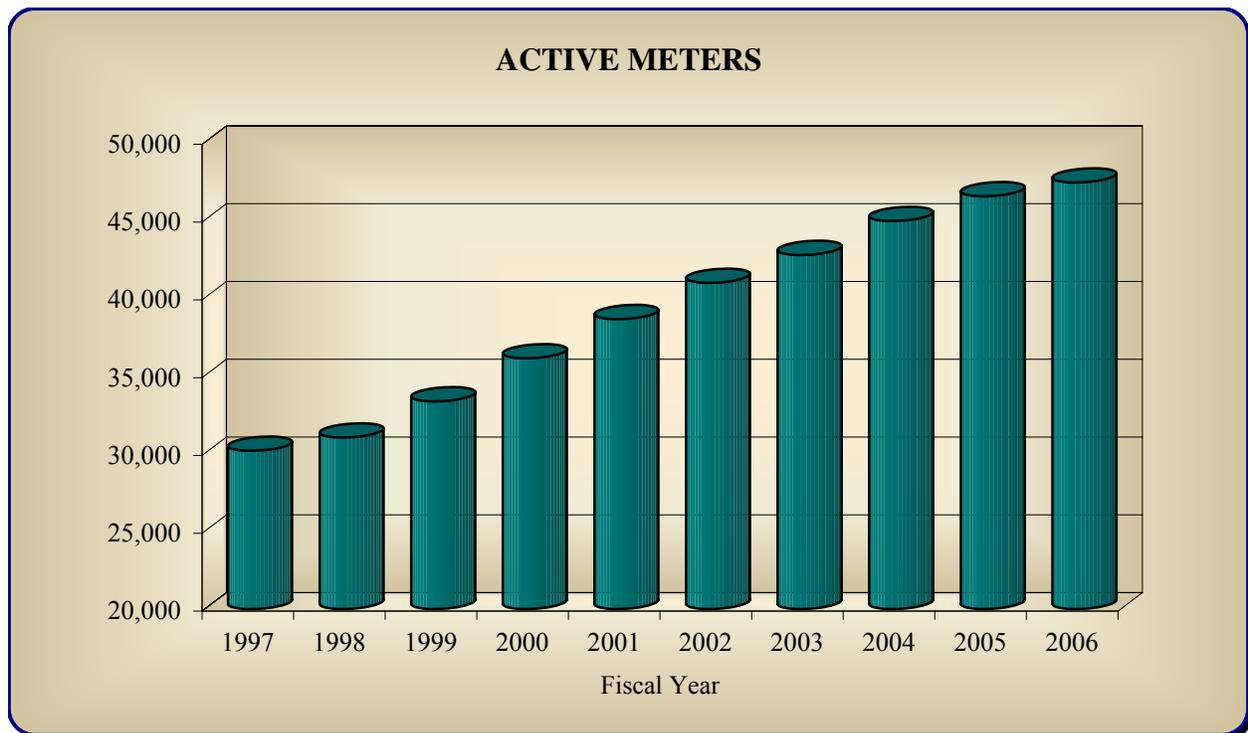
(1) Development Services was broken out from the Engineering and Planning Department in FY 2005.

*Source : Otay Water District*



## ACTIVE METERS BY SIZE LAST TEN FISCAL YEARS

Meter Size	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
3/4"	43,070	42,420	41,069	39,138	37,178	35,014	32,672	30,456	28,515	27,685
1"	1,514	1,364	1,220	1,132	1,110	1,079	1,041	1,010	881	880
1-1/2"	1,199	1,147	1,037	918	889	837	806	766	660	655
2"	1,242	1,199	1,168	1,140	1,124	1,084	1,059	992	858	848
3"	69	67	66	61	57	50	43	40	35	34
4"	277	289	329	308	526	496	431	55	48	44
6"	27	27	27	27	40	35	34	14	12	12
Others	11	12	15	26	35	35	25	12	11	9
<b>Total</b>	<b>47,409</b>	<b>46,525</b>	<b>44,931</b>	<b>42,750</b>	<b>40,959</b>	<b>38,630</b>	<b>36,111</b>	<b>33,345</b>	<b>31,020</b>	<b>30,167</b>
% Change	1.9%	3.5%	5.1%	4.4%	6.0%	7.0%	8.3%	7.5%	2.8%	-
Increase	884	1,594	2,181	1,791	2,329	2,519	2,766	2,325	853	-

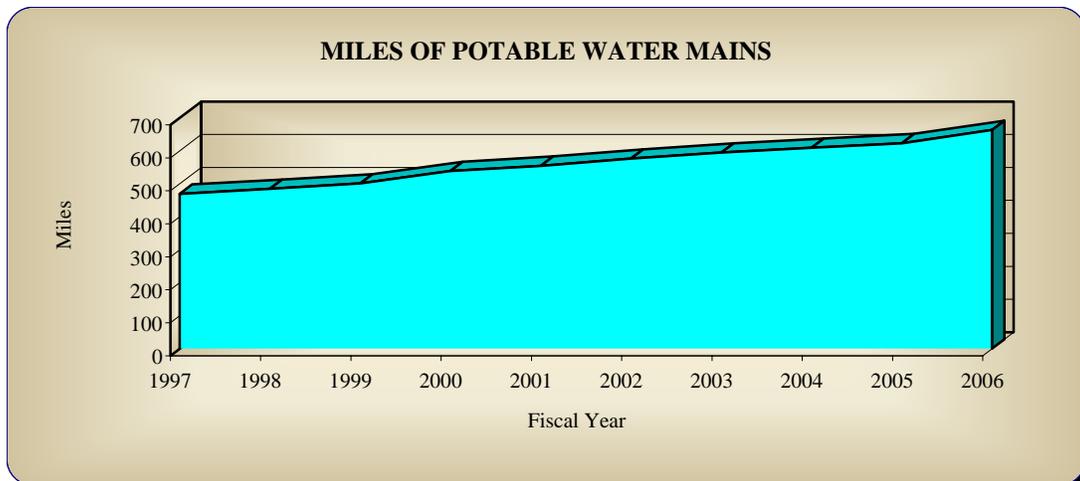


Source : Otay Water District



## OPERATING AND CAPITAL INDICATORS LAST TEN FISCAL YEARS

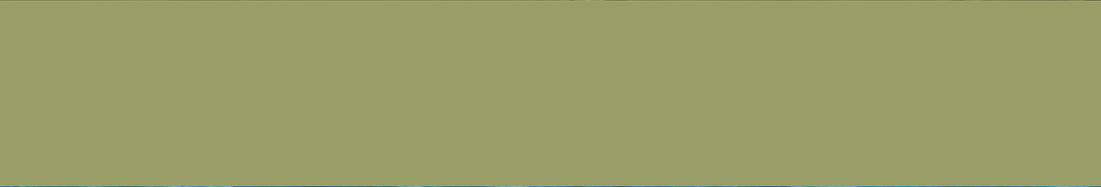
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
<b><u>Water System</u></b>										
Service Area (Square Miles)	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5
Miles of Potable Water Main	663	623	609	594	576	554	539	501	484	470
Number of Operational Storage Reservoirs in Service	37	36	37	37	38	37	37	37	38	38
Water Storage Capacity (in Acre Feet)	601.7	582.4	585.4	582.3	587.5	538.4	538.4	538.4	541.4	541.4
Total Water Connections (No. of Meters in Service)	47,409	46,525	44,931	42,750	40,959	38,630	36,111	33,345	31,020	30,167
Number of Pump Stations	22	21	21	21	21	20	20	20	20	20
Number of Potable Water Valves	18,042	17,696	16,204	15,830	15,073	14,296	13,519	12,340	11,846	11,279
<b><u>Sewer System</u></b>										
Miles of Sewer Lines	86.2	85.9	85.4	84.8	83.5	82.9	82.1	81.3	80.9	80.0
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Treatment Plant Capacity (Million Gallons per Day)	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total Flows for Fiscal Year 2006 (in Million Gallons)	483	506	479	463	455	452	442	413	456	445
<b><u>Recycled System</u></b>										
Miles of Recycled Water Mains	77.6	76.4	70.7	60.6	49.2	40.3	37.7	29.3	20.8	20.0
Number of Pumping Facilities	2	2	2	2	1	1	1	1	1	1
Number of Acre Feet Storage	97.3	97.3	97.3	97.3	86.9	86.9	86.9	86.9	86.9	36.8
Number of Recycled Water Valves	1,189	1,155	1,097	948	730	588	542	437	282	256



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Otay Water District  
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