Otay Water District

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2007

Spring Valley, California

The following information presented in the Otay Water District CAFR
has not been updated for developments subsequent to the date
of the independent auditor's report
(September 21, 2007)

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2007

Prepared by the Finance Department
Spring Valley, California

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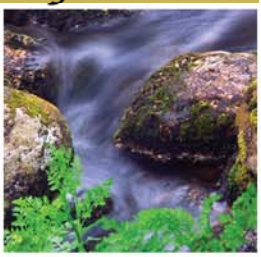

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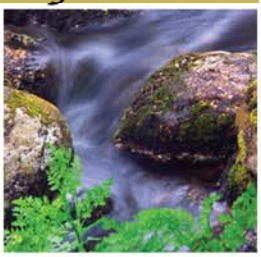


Introductory

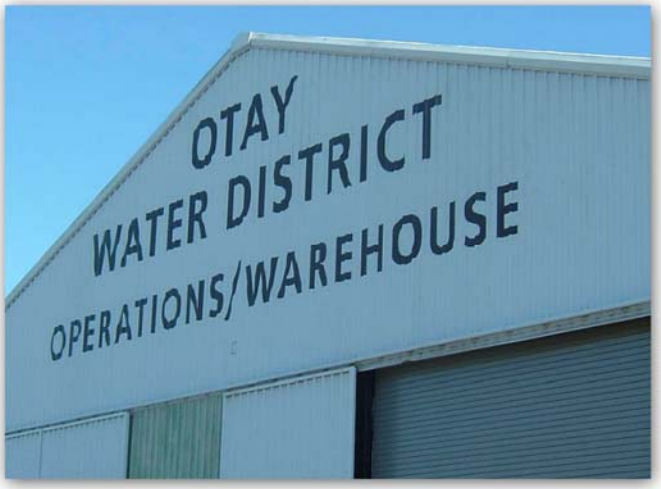
...Dedicated to Community Service
2554 SWEETWATER SPRINGS BOULEVARD, SPRING VALLEY, CALIFORNIA 91978-2004
TELEPHONE: 670-2222, AREA CODE 619

September 21, 2007

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, 2007. With the District's mission to provide safe and reliable 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.



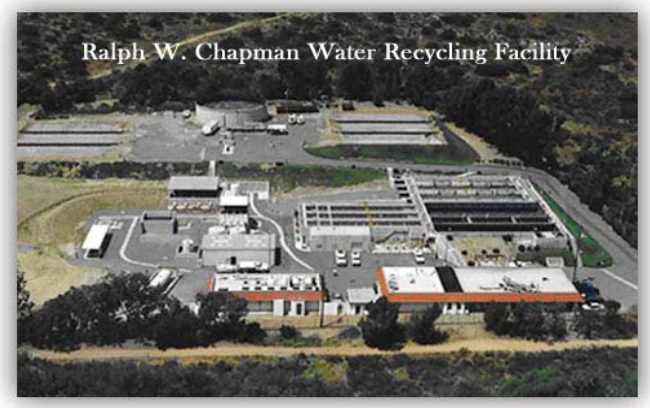
The District's financial statements have been audited by Teaman, Ramirez and Smith Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2007, are free 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, 2007, 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 on January 27, 1956 as a California special district by the State Legislature, with an entitlement to import water 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.

Over the last 51 years, the District has grown from a handful of customers and two employees to become an organization operating a network with more than 849 miles of pipelines, 41 operational 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 47,030 potable and 585 recycled customers within approximately 125 square miles of southeastern San Diego County. In the past, all of the potable water delivered by the District was 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 (MWD). In Fiscal Year 2007, the District began purchasing raw water from CWA and made an agreement with the City of San Diego to treat this raw water, giving the District a new source of potable water. By taking raw water through CWA's system, there is increased reliability of water supplied to the District. There are ongoing negotiations with the City of San Diego to expand future water treatment services through a new connection.



The District also owns and operates a wastewater collection and recycling system to provide public sewer service to approximately 4,630 homes and businesses (or 6,620 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.

On June 1, 2007, the District dedicated its new Supply Link Project connecting its recycled water system to San Diego's South Bay Water Reclamation Plant, taking about six million gallons a day of recycled water for irrigation purposes and allowing more potable water to be available for human consumption. The purchase and delivery of this water allows the District to receive financial incentives from both MWD and CWA, which helps to offset the investment in capital necessary to make this new source of water a reality.

CURRENT ECONOMIC CONDITIONS AND OUTLOOK

While overall growth in San Diego County has slowed over the last two years, population within the District's service area continues to increase albeit at a reduced rate. As of January 2007, it is estimated that the District served 190,000 residents. The District's Development Services Department currently approves approximately 35 permits per month, and sold 548 water meters in Fiscal Year 2006-2007. The San Diego Association of Governments (SANDAG), the regional planning agency, has estimated the District's growth will continue for a decade or more. The District projects an ultimate customer population of 277,000 residents.

BUDGET SUMMARY

For the first time in the District's history, the fiscal year budget exceeds $100 million, with 2008 operating expenditures of $66.2 million and capital expenditures of $35.5 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 District's operating expenditures are derived from three major sectors: water, reclamation, and sewer. Revenues from potable and recycled water for Fiscal Year 2008 are budgeted to be $63.3 million, about $10.0 million (15.8%) greater than Fiscal Year 2007. Water sales are expected to increase as a result of a slowing but continuing growth trend occurring within the District's service area.

Significant aspects of the Operating Budget are:

- A balanced budget meeting the goals of the Strategic Plan.
- An updated a six-year Rate Model to ensure sound financial planning and reserve levels.
- 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 eighth-lowest and below the county-wide average.
- The District issued $42 million in debt in Fiscal Year 2007, which is being used to fund the construction of new facilities and replacement or enhancement of existing facilities.
- Funding for the six million gallons per day recycled water purchase agreement with the City of San Diego.
- Increased credits from MWD and CWA for recycled water purchases from the City of San Diego.
- Expanded residential, landscape, and commercial water conservation programs.
- Funding for the fourth year of a Five-Year Labor Agreement ending in Fiscal Year 2008.

The projected operating cost for salaries and benefits is $15.6 million, which is an increase of $988,000 (6.8%) compared to Fiscal Year 2007. The increase in labor is predominately the result of negotiated pay and benefit increases.

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 $500 million in capital assets before ultimate build-out is realized. The Fiscal Year 2007-08 Capital Budget consists of 82 projects and a budget of $34.5 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth.

STRATEGIC PLAN

In 2001, the District began developing a Strategic Plan to guide operations and planning efforts through projected upcoming years of sustained growth. The plan was designed to address the unique challenges and opportunities resulting from this 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 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.

Developer fees support growth but replacement and maintenance is supported by rates and operating expenses. Otay 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.

A key to addressing future challenges is to capitalize on the significant investment that has been made in the 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 potable and recycled water networks, expanding use of recycled water, and continuing efforts to promote conservation.

The current Strategic Plan identifies how the District needs to change in order to meet future challenges and responsibilities. The plan is focused on all areas of the agency and describes, through cascading strategies, goals, and objectives, how it will achieve the desired changes. Major themes in the updated plan are: 1) the movement toward improvement of maintenance business practices so that the life of assets can be extended; 2) the development of improved and more precise financial information to assist in management decisions; 3) the improvement of customer service through enhanced customer knowledge and contact; and 4) the building of critical assets on time and on budget. As noted, the plan calls for the rapid adoption of technological systems and the review of business practices that will yield increased productivity. Part of the plan is a set of detailed performance measures which monitor the quarterly productivity of the agency. This mix of long-term objectives and short-term measures of productivity focuses the District on change while maintaining a high quality of customer service.

Putting the Strategic Plan to Work

Using the Strategic Plan as a guide and with the Board of Directors support, the District has been able to put into place many substantial improvements. Some of the most significant accomplishments are the integrated information system, the GIS system, and numerous policy and procedure improvements. These accomplishments, along with the forward thinking perspective of the District, paved the way for a thorough and persuasive presentation to two rating agencies, resulting in the positive outcome of a bond rating upgrade for Otay Water District from A+ to an AA-. Putting the Strategic Plan to work has resulted in operational savings and, in the case of the bond rating, it has resulted in approximately $1.5 million of interest expense savings.

Water Resources

The Strategic Plan drives advances in every aspect of District operations. For instance, the Strategic Plan calls for a periodic updating of the Urban Water Management Plan (UWMP), which was most recently completed in July 2007. The UWMP serves as a long-range planning document for water supply and demand, and provides an overview of the District's water supply, water 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.

Last year the District completed an Integrated Water Resources Plan (IRP). 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 implementation risks, environmental impacts, 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 identifies and evaluates all potential water resource supply opportunities to arrive at a recommended diverse water supply portfolio. This provides a strategic approach and focused direction, which is 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.

Current water supply alternatives include all potential opportunities such as desalination, groundwater, water transfers, recycled water supply development, and interagency agreements. In the coming year, the District will begin facilities rehabilitation and replacement assessment which will define expected capital outlays for future system replacements. This approach is clearly focused on asset management as a core discipline.

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 delivers, on average, more than six million gallons per day (MGD) of recycled water to the District's growing population, with the potential to increase these purchases up to nine MGD. Using this resource, in addition to the 1.3 MGD produced from the District's recycling facility, has enabled the District to reduce its potable water use by approximately 15%, maximizing the beneficial use of an alternative resource and making millions of gallons per day of potable water available for higher quality and better purposes.

To date, the District has received $3.3 of a $4 million grant from Proposition 50 and another $2.4 million from the State Water Resources Control Board (SWRCB) for partial funding of recycled water projects. The District is continuing to seek opportunities for increasing the capacity and usage of recycled water with the assistance of state and federal funding sources.

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, reporting, payroll, 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, matching revenues against the 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. This provides reasonable assurance that assets are adequately safeguarded and transactions are recorded correctly according to District policies and procedures. When establishing or reviewing controls, 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

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 departments 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 customers. 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 meetings.

CASH MANAGEMENT

During the year, available funds are invested in eligible securities, as required by law, and in accordance with the District's own investment policy adopted by the Board of Directors. The investment objectives of the District, in order of priority, are: 1) to preserve the capital of the portfolio; 2) to maintain adequate liquidity to meet cash flow requirements; and 3) to obtain a reasonable rate of return without compromising the first two objectives.

RISK MANAGEMENT

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, liability, and workers' compensation claims. During Fiscal Year 2006-2007, 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 and other forms of benefits (for example life insurance), in addition to the benefits provided from specific pension plans. 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

Because of the vision and years of hard work that went into the Supply Link Project connecting our recycled water system to the City of San Diego's South Bay Water Reclamation Plant, the San Diego County Taxpayer's Association awarded the District with the *Golden Watchdog of the Year Award for 2007*. In addition, the American Society of Civil Engineers presented the District the *Award of Merit*, and the WateReuse Association of California named Otay its *Utility of the Year*.

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, 2006. 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. We believe that our current Comprehensive Annual Financial Report continues to meet the program requirements and are submitting it to the GFOA 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, 2006, as well as three awards from the CSMFO for *Excellence in Budgeting*, *Excellence in Public Communications*, 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.

Mark Watton, General Manager

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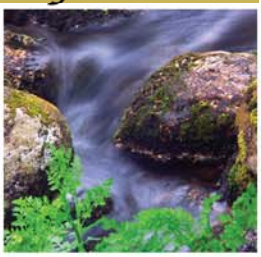
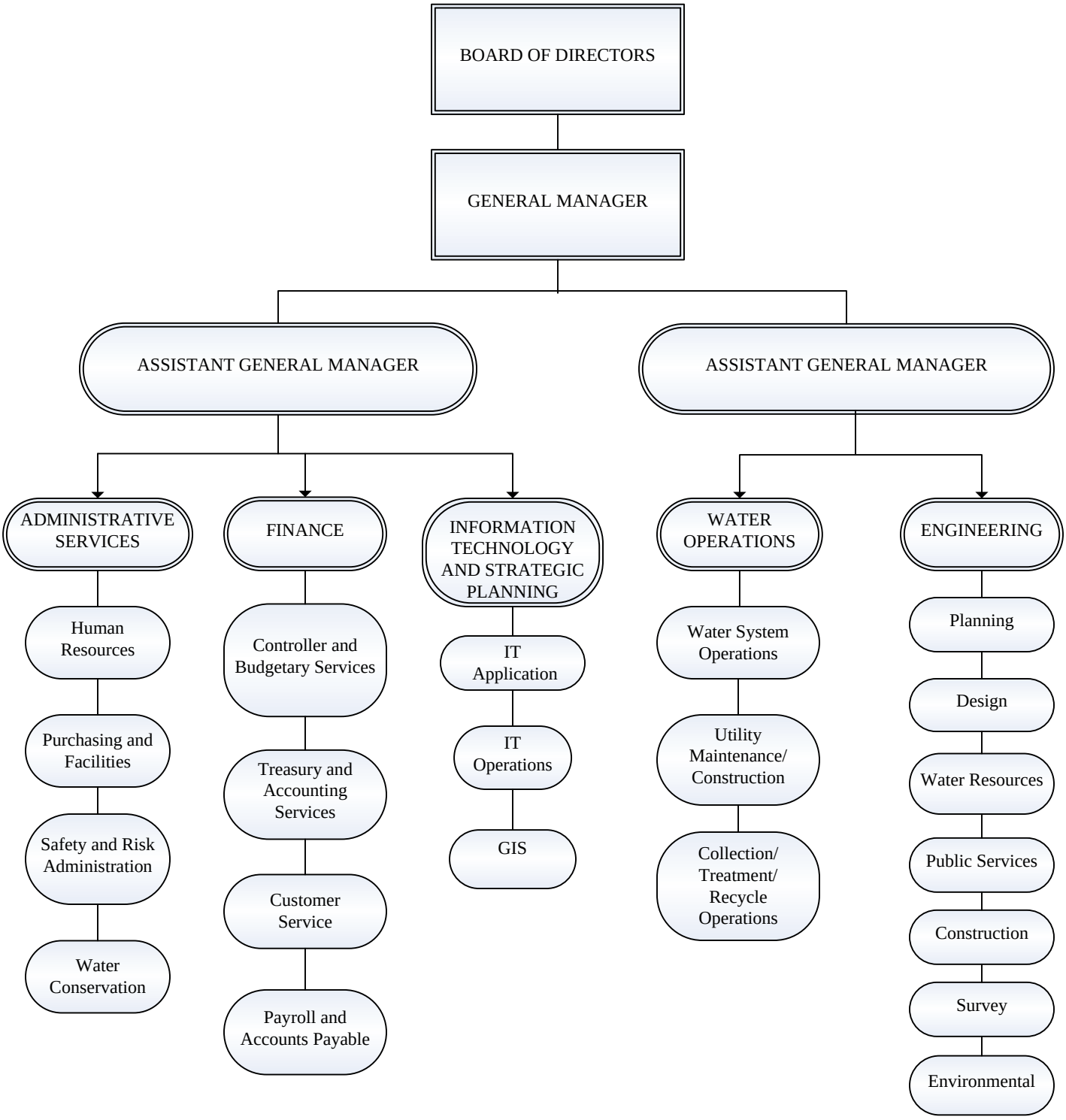


ORGANIZATION CHART



LIST OF PRINCIPAL OFFICIALS
FISCAL YEAR 2006-2007

Board of Directors

Listed from Left to Right

Larry Breitfelder - Division 1

Jose Lopez – Vice President, Division 4

Jaime Bonilla – Treasurer, Division 2

Mark Robak - Division 5

Gary Croucher - President, Division 3

District Financial Management

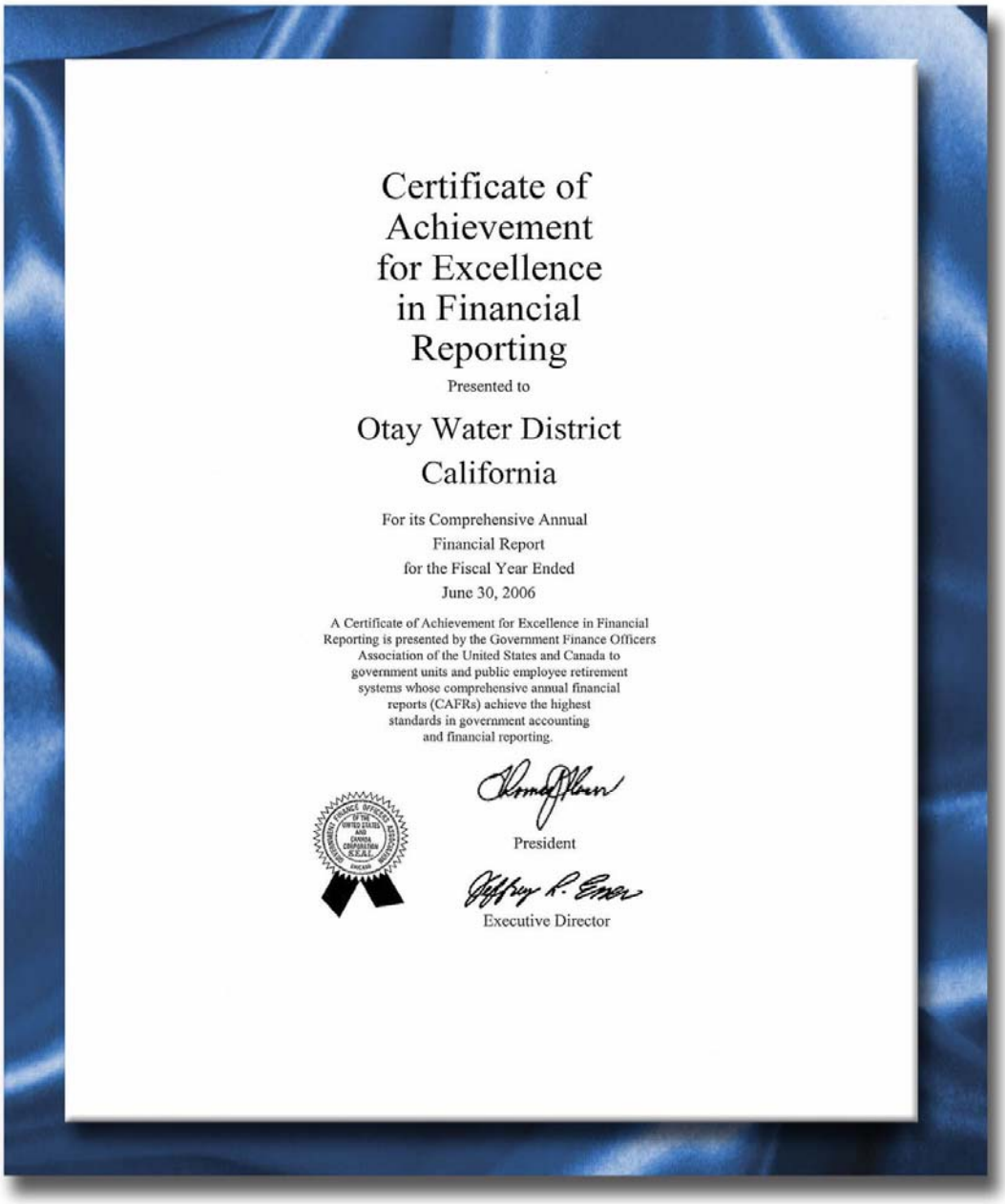
Mark Watton - General Manager

German Alvarez - Assistant General Manager, Finance and Administration

Manny Magaña - Assistant General Manager, Engineering and Operations

Joseph R. Beachem - Chief Financial Officer

AWARDS



Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Otay Water District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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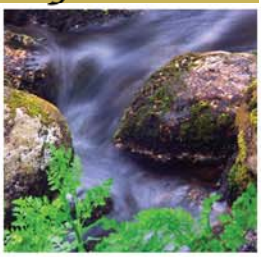

Financial

TRS TEAMAN, RAMIREZ & SMITH, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2007 and 2006, 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, 2007 and 2006, 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 September 21, 2007 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

September 21, 2007

Richard A. Teaman, CPA • Greg W. Fankhanel, CPA • David M. Ramirez, CPA • Joseph A. Deledonne, CPA • Javier H. Carrillo, CPA
4201 Brockton Ave. Suite 100, Riverside CA 92501 • **951.274.9500** • 951.274.7828 FAX • www.trscpas.com

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, 2007. 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 $447.0 million *(net assets).* Of this amount, $70.3 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 $24.9 million. Approximately two-thirds of this increase is attributable to a $5.4 million increase in operating revenues and an $11.1 million increase in capital contributions over the prior fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which 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 S*tatement 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 S*tatement of Revenues, Expenses and Changes in Net Assets* presents information showing how the District'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 each of the specific financial statements listed above.

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 an entity's financial position. In the case of the District, assets exceeded liabilities by $447.0 million at the close of the most recent fiscal year.

By far the largest portion of the District's net assets, $368.6 million (82%), 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.

Statement of Net Assets
(In Millions of Dollars)

	2007	2006	2005
Assets			
Current and Other Assets	$ 122.1	$ 86.4	$ 107.8
Capital Assets	424.3	397.0	362.5
Total Assets	546.4	483.4	470.3
Liabilities			
Long-term Debt Outstanding	74.2	33.9	35.4
Other Liabilities	25.2	27.4	23.8
Total Liabilities	99.4	61.3	59.2
Net Assets			
Invested in Capital Assets Net of Related Debt	374.6	361.6	325.7
Restricted	2.1	2.4	16.2
Unrestricted	70.3	58.1	69.2
Total Net Assets	$ 447.0	$ 422.1	$ 411.1

At the end of the fiscal year, the District is able to report positive balances in all categories of net assets. This situation also held true for the prior fiscal year. Total Net Assets increased to $447.0 million, approximately $24.9 million more than the prior year. The increase in Current and Other Assets of $35.7 million is off-set by the increase in Long-term Debt of $40.3 million, due to the issuance of $42 million in new Certificates of Participation (COPS-2007). (See Note 5 in the Notes to Financial Statements). Capital Assets increased by $27.3 million, to $424.3 million (net of related accumulated depreciation), due predominantly to the District's aggressive Capital Improvement Program (CIP). (See Note 3 in the Notes to Financial Statements for additional information. Other less significant changes included an increase in accounts receivable of $1.9 million and a decrease in accounts payable of $3.8 million.

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

	2007	2006	2005
Water Sales	$ 48.6	$ 43.8	$ 39.3
Wastewater Revenue	2.6	2.3	2.0
Connection and Other Fees	2.1	1.8	2.0
Non-operating Revenues	11.1	8.5	8.3
Total Revenues	64.4	56.4	51.6
Depreciation Expense	10.8	10.1	10.5
Other Operating Expense	53.9	49.5	46.0
Non-operating Expense	1.3	1.2	1.9
Total Expenses	66.0	60.8	58.4
Loss Before Capital Contributions	(1.6)	(4.4)	(6.8)
Capital Contributions	26.5	15.4	34.9
Change in Net Assets	24.9	11.0	28.1
Beginning Net Assets	422.1	411.1	383.0
Ending Net Assets	$ 447.0	$ 422.1	$ 411.1

Water sales increased by $4.8 million from the prior year mainly due to reduced rainfall during the current year, as well as an additional 548 new water meter sales (47,483 to 48,031). There was a significant decrease in rainfall of 2.21 inches (6.06 to 3.85), and total water sales increased by 1,420 acre-feet.

Wastewater revenue increased by $0.3 million due to a rate increase from $30.90 to $32.70 per assigned service unit. This increase was implemented in January of 2007 and was predominantly a pass-through of cost increases from the City of San Diego and the County of San Diego, as discussed in the Budget 2007-2008 section of this document.

Other operating expenses increased by approximately $4.4 million, predominately as a result of increases in outside services and higher pension costs.

Capital Assets and Debt Administration

Capital Assets. The District's capital assets as of June 30, 2007, totaled $424.3 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 6.9%.

Capital Assets
(In Millions of Dollars)

	2007	2006	2005
Land	$ 13.0	$ 12.5	$ 12.2
Construction in Progress	40.3	58.9	45.1
Water System	356.6	333.0	313.9
Reclaimed Water System	73.5	49.1	39.8
Sewer System	37.7	37.7	37.2
Buildings	17.6	17.5	16.7
Transportation Equipment	3.1	2.9	2.8
Engineering Equipment	5.6	5.7	5.7
Power Operated Equipment	1.6	1.6	1.6
Other Equipment	18.5	10.9	10.3
	567.5	529.8	485.3
Less Accumulated Depreciation	(143.2)	(132.8)	(122.8)
Net Capital Assets	$ 424.3	$ 397.0	$ 362.5

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

Additional information on the District's capital assets can be found in Note 3 of the Notes to Financial Statements.

Long-term Debt. At June 30, 2007, the District had $74.2 million in outstanding debt which consisted of the following:

General Obligation Bonds	$ 8.1
Certificates of Participation	65.1
Notes Payable	1.0
Total Long-term Debt	$ 74.2

As mentioned earlier, this increase in long-term debt is due to District's issuance of $42 million in Certificates of Participation (COPS) during the current fiscal year. Additional information on the District's long-term debt can be found in Note 5 of the Notes to Financial Statements.

Fiscal Year 2007-2008 Budget

Economic Factors

Growth in the San Diego area has slowed over the last year, and demand for housing is reflected in a similarly reduced pace. The District currently provides water service to about 69% of its total projected population, serving approximately 190,000 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 43,327 acre-feet of water to 48,645 customers during Fiscal Year 2007-2008. 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 District has implemented a six-year rate study projection that forecasts minimum essential rate increases in order to fund required growth and improvements in infrastructure, as well as to pass along cost increases from the City of San Diego, the County of San Diego, and the San Diego County Water Authority. The 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 implement strategic changes that will provide long-term benefits to the District, while only increasing rates at modest levels.

Conversely, decreased levels of rainfall over the last two years have caused historic dry conditions and depleted water reserves throughout the entire state. Water agencies throughout the San Diego County Water Authority area have implemented voluntary water conservation programs, along with several incentive programs, to encourage customers to make a variety of water-saving improvements with their appliances and landscape irrigation. If these drought conditions continue through the upcoming fiscal year, there is a potential for both legal constraints on California's water supply and regulatory constraints upon all customer water usage, which would ultimately have a corresponding negative effect on the District's total water sales revenue. Mitigating the impact of this revenue decrease would be corresponding reductions in expenses, to include the cost of water and the associated electricity required for pumping.

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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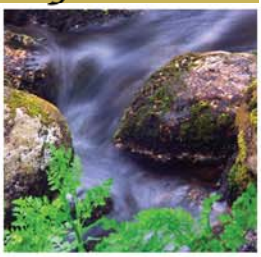

Basic Financial Statements

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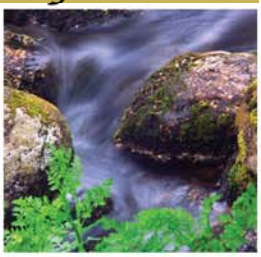

STATEMENT OF NET ASSETS
JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 2)	$ 8,048,633	$ 11,347,434
Restricted Cash and Cash Equivalents (Note 2)	11,191,213	2,408,473
Investments (Note 2)	68,912,864	62,596,513
Restricted Investments (Note 2)	19,975,538	
Accounts Receivable	8,675,458	6,808,999
Accrued Interest Receivable	1,559,081	818,798
Restricted Taxes and Availability Charges Receivable	443,854	318,090
Inventory	633,697	592,426
Prepaid Expenses and Other Current Assets	1,164,300	664,133
Total Current Assets	120,604,638	85,554,866
Non-current Assets:		
Capital Assets, Net of Depreciation (Note 3)	424,260,968	396,987,584
Other Non-current Assets (Note 4)	1,490,515	838,990
Total Non-current Assets	425,751,483	397,826,574
Total Assets	546,356,121	483,381,440
LIABILITIES		
Current Liabilities:		
Current Maturities of Long-term Debt (Note 5)	1,519,048	1,529,848
Accounts Payable	10,930,658	11,617,499
Accrued Payroll Liabilities	2,270,958	2,348,853
Other Accrued Liabilities	1,597,012	683,350
Customer Deposits	2,622,646	2,489,101
Liabilities Payable From Restricted Assets:		
Accounts Payable	4,492,364	7,633,220
Accrued Interest	882,888	413,442
Total Current Liabilities	24,315,574	26,715,313
Non-current Liabilities:		
Liabilities Payable From Restricted Assets:		
Prepaid Capacity Fees	890,473	733,915
Long-term Debt (Note 5)		
General Obligation Bonds	8,045,029	8,396,755
Certificates of Participation	65,051,790	24,119,352
Notes Payable	1,031,730	1,350,778
Total Non-current Liabilities	75,019,022	34,600,800
Total Liabilities	99,334,596	61,316,113
NET ASSETS (NOTE 7)		
Invested in Capital Assets, Net of Related Debt	374,667,591	361,590,845
Restricted	2,071,307	2,408,473
Unrestricted	70,282,627	58,066,009
Total Net Assets	$ 447,021,525	$ 422,065,327

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, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Water Sales	$ 48,605,606	$ 43,755,610
Wastewater Revenue	2,604,431	2,331,094
Connection and Other Fees	2,040,444	1,774,384
Total Operating Revenues	53,250,481	47,861,088
OPERATING EXPENSES		
Cost of Water Sales	33,994,841	32,043,395
Wastewater	1,508,672	1,899,957
Administrative and General	18,418,441	15,477,287
Depreciation	10,729,096	10,107,455
Total Operating Expenses	64,651,050	59,528,094
Operating Income (Loss)	(11,400,569)	(11,667,006)
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	4,416,342	3,188,645
Taxes and Assessments	4,151,956	2,779,635
Availability Charges	715,664	609,099
Gain on Sale of Capital Assets	1,817	142,922
Miscellaneous Revenues	1,809,802	1,835,710
Donations	(80,000)	(75,000)
Interest Expense	(950,479)	(959,225)
Miscellaneous Expenses	(271,410)	(279,506)
Total Non-operating Revenues (Expenses)	9,793,692	7,242,280
Income (Loss) Before Contributions	(1,606,877)	(4,424,726)
Capital Contributions	26,563,075	15,401,580
Change in Net Assets	24,956,198	10,976,854
Total Net Assets, Beginning	422,065,327	411,088,473
Total Net Assets, Ending	$ 447,021,525	$ 422,065,327

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 49,477,123	$ 46,628,097
Cash from Other Operating Activities	2,040,444	1,774,384
Other Receipts	894,234	920,142
Cash Payments to Suppliers	(41,462,779)	(30,885,263)
Cash Payments to Employees	(15,835,985)	(15,530,526)
Other Payments	(167,472)	(186,793)
Net Cash Provided (Used) By Operating Activities	(5,054,435)	2,720,041
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from Taxes and Assessments	4,026,192	2,783,983
Receipts from Property Rents and Leases	951,020	927,628
Net Amounts Paid for Acquisition and Maintenance of Demonstration Garden	(80,000)	(75,000)
Net Cash Provided (Used) By Noncapital Financing Activities	4,897,212	3,636,611
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Contributions	17,476,332	9,467,925
Proceeds from Sale of Capital Assets	1,817	142,922
Proceeds from Debt Related Taxes and Assessments	715,664	609,099
Proceeds from Long-Term Debt (Note 5)	40,989,797	0
Principal Payments on Long-Term Debt (Note 5)	(1,529,848)	(1,456,911)
Acquisition and Construction of Capital Assets	(28,915,737)	(38,680,673)
Interest Paid	(481,033)	(949,622)
Net Cash (Used) By Capital and Related Financing Activities	28,256,992	(30,867,260)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	3,676,059	2,959,008
Proceeds from Sale and Maturities of Investments	44,708,111	52,780,016
Purchase of Investments	(71,000,000)	(42,000,000)
Net Cash Provided (Used) by Investing Activities	(22,615,830)	13,739,024
Net Increase (Decrease) in Cash and Cash Equivalents	5,483,939	(10,771,584)
Cash and Cash Equivalents - Beginning of Year	13,755,907	24,527,491
Cash and Cash Equivalents - End of Year	$ 19,239,846	$ 13,755,907

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Net Operating Income (Loss)	$ (11,400,569)	$ (11,667,006)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	10,729,096	10,107,455
Miscellaneous Revenues	894,234	920,142
Miscellaneous Expenses	(167,472)	(186,793)
(Increase) Decrease in Accounts Receivable	(1,866,459)	296,485
(Increase) Decrease in Inventory	(41,271)	27,693
(Increase) Decrease in Prepaid Expenses and Other Current Assets	(500,167)	(322,447)
Increase (Decrease) in Accounts Payable	(3,827,697)	2,883,852
Increase (Decrease) in Accrued Payroll and Related Expenses	(77,895)	335,998
Increase (Decrease) in Other Accrued Liabilities	913,662	79,693
Increase (Decrease) in Customer Deposits	133,545	244,908
Increase (Decrease) in Prepaid Capacity Fees	156,558	61
Total Cash Provided (Used) By Operating Activities	$ (5,054,435)	$ 2,720,041
SUPPLEMENTAL DISCLOSURES		
Non-cash Investing and Financing Activities Consisted of the Following:		
Contributed Capital for Water and Sewer System	$ 8,812,611	$ 24,494,557
Change in Fair Value of Investments and Recognized Gains/Losses	223,829	354,270
Capital Contribution Resulting from Prepaid Capacity Fees	156,558	61
Amortization Related to Long-term Debt	103,938	92,713
Cash Paid for Interest Expense	$ 1,478,461	$ 1,410,957

The accompanying notes are an integral part of this statement.

NOTE	DESCRIPTION	PAGE
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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. 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 $49,317 and $35,343 at June 30, 2007 and 2006, 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.

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. Infrastructure assets in excess of $20,000 and other Capital assets 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

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 statues 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.

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	$ 8,048,633
Investments	68,912,864
Restricted:	
Cash and Cash Equivalents	11,191,213
Investments	19,975,538
Total Cash and Investments	$ 108,128,248

Cash and investments consist of the following:

Cash on Hand	$ 2,800
Deposits with Financial Institutions	1,125,589
Investments	106,999,859
Total Cash and Investments	$108,128,248

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[1]	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	5 years[2]	None	None
Certificates of Deposit	1 year	15%	None
Bankers Acceptances	180 Days	15%	None
Medium-Term Notes	5 years	15%	None
Commercial Paper	270 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

[1] Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.
[2] No more than 30% of the portfolio shall exceed two years to maturity.

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 rates 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.

		Remaining Maturity (in Months)			
Investment Type		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Federal Agency Securities	$ 88,888,402	$ 42,957,962	$ 42,935,888	$ 2,994,552	$
Local Agency Investment Fund (LAIF)	18,005,611	18,005,611			
San Diego County Pool	105,846	105,846			
Total	$106,999,859	$ 61,069,419	$ 42,935,888	$ 2,994,552	$ 0

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.

		Minimum Legal	Rating as of Year End		
Investment Type		Rating	AAA	Aa	Not Rated
Federal Agency Securities	$ 88,888,402	N/A	$ 88,888,402	$	$
Local Agency Investment Fund (LAIF)	18,005,611	N/A			18,005,611
San Diego County Pool	105,846	N/A			105,846
Total	$106,999,859		$ 88,888,402	$ 0	$ 18,111,457

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:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	Federal Agency Securities	$ 51,942,188
Federal Home Loan Mortgage Corp	Federal Agency Securities	$ 30,952,777

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 Entity'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, 2007, $823,206 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts. As of June 30, 2007, 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:

Investment Type	Reported Amount
Federal Agency Securities	$ 88,888,402

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 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, 2007 was 5.23%. The carrying value and estimated market value of the LAIF Pool at June 30, 2007 was $65,786,597,418 and $65,756,665,933, respectively. The District's share of the Pool at June 30, 2007 was approximately 0.027 percent. Included in LAIF's investment portfolio are structured notes and asset-backed securities totaling $774,000,000 and $1,501,103,000, 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.

2) CASH AND INVESTMENTS - Continued

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 Deposit 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.

3) CAPITAL ASSETS

The following is a summary of changes in Capital Assets for the year ended June 30, 2007:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated				
Land	$ 12,494,062	$ 477,417	$	$ 12,971,479
Construction in Progress	58,869,241	31,629,969	(50,199,155)	40,300,055
Total Capital Assets Not Depreciated	71,363,303	32,107,386	(50,199,155)	53,271,534
Capital Assets, Being Depreciated				
Infrastructure	419,795,999	48,055,106	(48,084)	467,803,021
Field Equipment	9,202,543	164,906	(8,587)	9,358,862
Buildings	17,469,999	137,656		17,607,655
Transportation Equipment	2,934,069	254,844	(132,205)	3,056,708
Communication Equipment	520,540	78,912		599,452
Office Equipment	8,464,962	7,415,384	(93,033)	15,787,313
Total Capital Assets Being Depreciated	458,388,112	56,106,808	(281,909)	514,213,011
Less Accumulated Depreciation:				
Infrastructure	110,157,652	9,210,199	(40,384)	119,327,467
Field Equipment	8,368,755	216,424	(8,004)	8,577,175
Buildings	4,493,308	571,127		5,064,435
Transportation Equipment	2,557,207	187,812	(130,135)	2,614,884
Communication Equipment	195,470	69,649		265,119
Office Equipment	6,991,439	473,885	(90,827)	7,374,497
Total Accumulated Depreciation	132,763,831	10,729,096	(269,350)	143,223,577
Total Capital Assets Being Depreciated, Net	325,624,281	45,377,712	(12,559)	370,989,434
Total Capital Assets, Net	$ 396,987,584	$ 77,485,098	$ (50,211,714)	$ 424,260,968

Depreciation expense for the year ended June 30, 2007 and 2006 was $10,729,096 and $10,107,455, respectively.

4) OTHER NON-CURRENT ASSETS

Contracts receivable totaled $55,759 and $92,375, net of no allowance as of June 30, 2007 and 2006, respectively.

Deferred bond issue costs totaled $1,254,821 and $555,550, net of accumulated amortization of $357,952 and $326,552 as of June 30, 2007 and 2006, respectively. The 1993 COPS had refunding transactions net of accumulated amortization of $179,935 for June 30, 2007 and $191,065 for 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 for the years ended June 30, 2007 and 2006 is included with miscellaneous expense.

5) LONG-TERM DEBT

Long-term liabilities for the year ended June 30, 2007 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds:					
Improvement District No. 27	$ 9,590,000	$	$ 380,000	$ 9,210,000	$ 400,000
Unamortized Bond Discount	(118,351)		(7,398)	(110,953)	
Deferred Amount of Funding	(694,894)		(40,876)	(654,018)	
Net General Obligation Bonds	8,776,755		331,726	8,445,029	400,000
Certificates of Participation:					
1996 Certificates of Participation	13,100,000		300,000	12,800,000	300,000
2004 Certificates of Participation	11,825,000		490,000	11,335,000	500,000
2007 Certificates of Participation		42,000,000		42,000,000	
Unamortized Discount	(15,648)		(745)	(14,903)	
2007 COPS Unamortized Discount		(271,322)	(3,015)	(268,307)	
Net Certificates of Participation	24,909,352	41,728,678	786,240	65,851,790	800,000
Notes Payable					
State Water Resource Control Board	1,659,037		308,259	1,350,778	319,048
Capital Leases					
Vactor	51,589		51,589	0	
Total Long-Term Liabilities	$ 35,396,733	$ 41,728,678	$ 1,477,814	$ 75,647,597	$ 1,519,048

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.

5) LONG-TERM DEBT - Continued

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, 2007 and 2006 was $40,876 for each year and is included in miscellaneous non-operating expenses. As of June 30, 2007 and 2006, the amortized deferred amount of refunding is $654,018, and $694,894, respectively.

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

Future debt service requirements for the bonds are as follows:

For the Year Ended June 30,	Principal	Interest
2008	$ 400,000	$ 440,385
2009	415,000	422,047
2010	435,000	402,705
2011	455,000	382,235
2012	475,000	360,607
2013-2017	2,735,000	1,426,238
2018-2022	3,490,000	654,750
2023	805,000	20,125
	$ 9,210,000	$ 4,109,092

The following General Obligation Bonds have been authorized by the Board of Directors, but were unissued as of June 30, 2007:

Date Authorized	Improvement District (ID)	Construction Purpose	Bond Amount
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 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, 2007 was 3.75%. The installment payments are to be paid annually at $350,000 to $900,000 from September 1, 1996 through September 1, 2026.

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%.

In February 2007, Revenue Certificates of participation (COPS) with face value of $42,000,000 were sold by the Otay Service Corporation to improve the District's water storage system and distribution facilities. An installment purchase agreement between the District, as a 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 $785,000 to $2,445,000 from September 1, 2007 through September 1, 2036; bearing interest at 3.7% to 4.47%.

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

For the Year	1996 COPS		2004 COPS		2007 COPS	
Ended June 30,	Principal	Interest*	Principal	Interest	Principal	Interest
2008	$ 300,000	$ 468,750	$ 500,000	$ 433,534	$	$ 836,424
2009	400,000	453,750	515,000	418,309	785,000	1,730,532
2010	400,000	438,750	530,000	402,634	815,000	1,701,487
2011	400,000	423,750	545,000	386,236	850,000	1,671,333
2012	400,000	408,750	565,000	368,607	885,000	1,639,458
2013-2017	2,700,000	1,751,250	3,130,000	1,522,672	4,980,000	7,672,475
2018-2022	3,500,000	1,158,750	3,795,000	828,394	6,020,000	6,647,564
2023-2027	4,700,000	378,750	1,755,000	81,441	7,360,000	5,334,096
2028-2032					9,070,000	3,646,594
2033-2037					11,235,000	1,517,031
	$ 12,800,000	$ 5,482,500	$ 11,335,000	$ 4,441,827	$ 42,000,000	$ 32,396,994

* Variable Rate - Interest reflected at June 30, 2007 at a rate of 3.75%.

Note Payable

In December 1990, the District entered into 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, 2007 and aggregate maturities of the note for the fiscal years subsequent to June 30, 2007, are as follows:

For the Year Ended June 30,	Principal	Interest
2008	$ 319,048	$ 47,277
2009	330,214	36,111
2010	341,772	24,553
2011	359,744	12,591
	$ 1,350,778	$ 120,532

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

	Water	Sewer	Total
Assets:			
Current Assets	$ 117,995,148	$ 94,329	$ 118,089,477
Current Restricted Assets	2,515,161		2,515,161
Capital Assets	423,343,737	917,231	424,260,968
Other Non-current Assets	1,490,515		1,490,515
Total Assets	545,344,561	1,011,560	546,356,121
Liabilities:			
Current Liabilities	18,689,465	250,857	18,940,322
Current Liabilities Payable from Restricted Assets	5,323,479	51,773	5,375,252
Non-current Liabilities Payable from Restricted Assets	882,973	7,500	890,473
Non-current Liabilities	74,128,549		74,128,549
Total Liabilities	99,024,466	310,130	99,334,596
Net Assets:			
Invested in Capital Assets, Net of Related Debt	373,750,360	917,231	374,667,591
Restricted	2,071,307		2,071,307
Unrestricted	70,498,428	(215,801)	70,282,627
Total Net Assets	$ 446,320,095	$ 701,430	$ 447,021,525

6) SEGMENT INFORMATION - Continued

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

	Water	Sewer	Total
Operating Revenues	$ 50,646,050	$ 2,604,431	$ 53,250,481
Depreciation	(10,729,096)		(10,729,096)
Other Operating Expenses	(52,413,282)	(1,508,672)	(53,921,954)
Operating Income	(12,496,328)	1,095,759	(11,400,569)
Non-operating Revenues (Expenses):			
Investment Income	4,349,134	67,208	4,416,342
Taxes and Assessments	3,794,489	357,467	4,151,956
Availability Charges	662,674	52,990	715,664
Gain on Sale of Capital Assets	1,817		1,817
Other Non-operating Revenues	1,809,802		1,809,802
Donations	(80,000)		(80,000)
Interest Expense	(898,706)	(51,773)	(950,479)
Other Non-operating Expenses	(271,410)		(271,410)
Transfers	1,358,441	(1,358,441)	0
Capital Contributions	26,563,075		26,563,075
Total Non-operating Revenues (Expenses)	37,289,316	(932,549)	36,356,767
Change in Net Assets	24,792,988	163,210	24,956,198
Total Net Assets, Beginning	421,527,107	538,220	422,065,327
Total Net Assets, Ending	$ 446,320,095	$ 701,430	$ 447,021,525

Condensed Statement of Cash Flows

	Water	Sewer	Total
Net Cash Provided (Used) by:			
Operating Activities	(6,155,309)	1,100,874	(5,054,435)
Non-capital Financing Activities	5,949,935	(1,052,723)	4,897,212
Capital and Related Financing Activities	28,372,351	(115,359)	28,256,992
Investing Activities	(22,683,038)	67,208	(22,615,830)
Net Increase (Decrease)	5,483,939	0	5,483,939
Beginning Cash and Cash Equivalents	13,755,907	0	13,755,907
Ending Cash and Cash Equivalents	$ 19,239,846	$ 0	$ 19,239,846

7) NET ASSETS

A summary of changes in net assets for the year ended June 30, 2007 is as follows:

Description	Investment in Capital Assets (Net of Related Debt)	Restricted Net Assets	Unrestricted Net Assets	Total
Beginning of Year	$ 361,590,845	$ 2,408,473	$ 58,066,009	$ 422,065,327
Income (Loss) Before Contributions	(10,729,096)*	3,917,141	5,205,078	(1,606,877)
Capital Contributions				
Construction of Water and Sewer Systems	9,086,743			9,086,743
Capacity Fees and Capital Contributions		15,356,447		15,356,447
Betterment Fees				
Annexation Fees			2,119,885	2,119,885
Change in Related Capital Debt/(Transfers)	(14,467,966)	15,945,780	(1,477,814)	0
Acquisition and Construction/(Transfers)	29,187,065	(35,556,534)	6,369,469	0
End of Year	$ 374,667,591	$ 2,071,307	$ 70,282,627	$ 447,021,525

*Depreciation Expense

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, 2007 and 2006:

	2007	2006
Replacement Reserve	$ 31,779,960	$ 22,876,118
Insurance Reserve	16,893,128	16,428,945
Expansion Reserve	17,809,405	5,772,470
Total	$ 66,482,493	$ 45,077,533

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.

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, 2007 was 18.864%. 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, 2007, the District's annual pension cost and actual contribution was $1,925,758. The required contribution for the fiscal year ended June 30, 2007, was determined as part of the June 30, 2004 actuarial valuation.

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

Valuation Date	June 30, 2004
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
6/30/07	1,925,758	100%	0
6/30/06	2,120,529	100%	0
6/30/05	1,684,657	100%	0

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 $1,080,334 and $641,464, were recognized for 65 and 59 eligible retirees, for the years ended June 30, 2007 and 2006, 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, 2007 and 2006, the District contributed $80,000 and $75,000, respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

A summary of the Authority's June 30, 2006 audited financial statement is as follows (latest report available):

Assets	$ 2,525,619
Liabilities	78,812
Revenues, Gains and Other Support	649,142
Changes in Net Assets	(184,414)

11) COMMITMENTS AND CONTINGENCIES

Construction Commitments

The District had committed to capital projects under construction with an estimated cost to complete of $3,171,073 at June 30, 2007.

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, 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. At June 30, 2007, 1,750 EDUs had been relinquished and refunded, 13,424 EDUs had been connected, and 2,693 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, 2007, 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 $1,987,941 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.

12) RISK MANAGEMENT - Continued

Workers' Compensation

The District is a member of the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. The District is insured up to $300,000,000 for statutory workers' compensation and $5,000,000 for employers' liability coverage with no deductible. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "I" Street, Suite 300, Sacramento, CA 95814.

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 $474,413 and $422,327 at June 30, 2007 and 2006, respectively. Accrued health costs are included in other accrued liabilities. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended June 30, 2007	Year Ended June 30, 2006
Unpaid Claims, Beginning of Fiscal Year	$ 422,327	$ 299,700
Incurred Claims (Including IBNRS)	1,399,661	1,417,561
Claim Payments	(1,347,575)	(1,294,934)
Unpaid Claims, End of Fiscal Year	$ 474,413	$ 422,327

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, 2007 and 2006, is as follows:

	2007	2006
Amount Expensed	$ 950,479	$ 959,225
Amount Capitalized as a Cost of Construction Projects	997,428	460,535
Interest Paid	$ 1,947,907	$ 1,419,760

Required Supplementary Information

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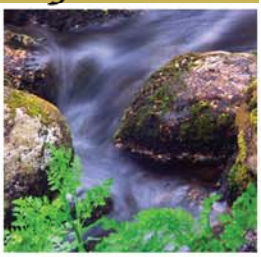

Schedule of Funding Progress for PERS

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]
6/30/06 Miscellaneous	$ 40,321,483	$ 54,228,041	$ 13,906,558	74.4%	$ 10,470,766	132.8%
6/30/05 Miscellaneous	$ 36,029,595	$ 50,249,943	$ 14,220,348	71.7%	$ 10,005,158	142.1%
6/30/04 Miscellaneous	$ 31,591,156	$ 45,156,690	$ 13,565,534	70.0%	$ 9,764,596	138.9%

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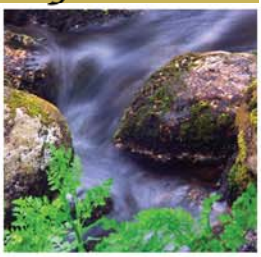


Statistical

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.

CONTENTS

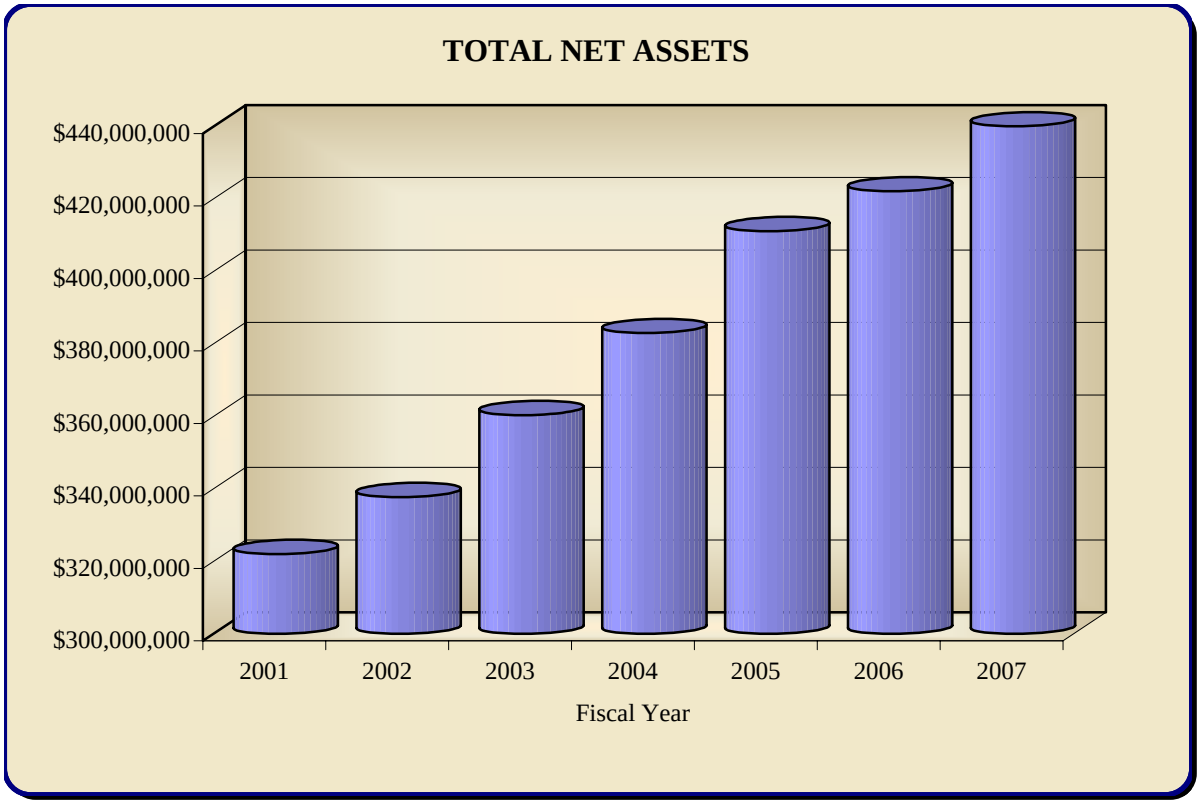
	PAGE
FINANCIAL TRENDS	52
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time	
REVENUE CAPACITY	58
These schedules contain information to help the reader assess the factors affecting the District's ability to generate its water, reclaimed, and sewer sales as well as property and sales taxes.	
DEBT	65
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	
DEMOGRAPHIC AND ECONOMIC INFORMATION	69
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	
OPERATING INFORMATION	71
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	

SOURCES

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 2001; schedules presenting government-wide 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
2007		$ 374,667,591	$ 2,071,307	$ 70,282,627	$ 447,021,525
2006		361,590,845	2,408,473	58,066,009	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

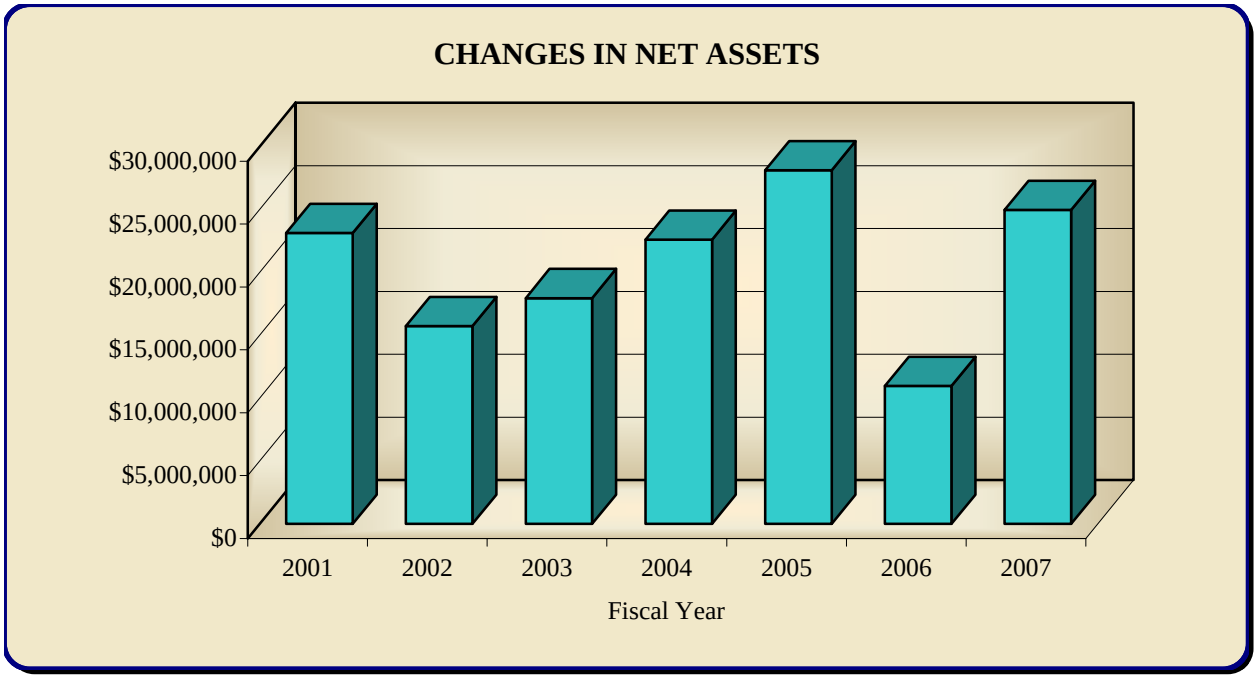


(1) As recommended by GASB 44, this schedule provides data retroactive to the year GASB 34 was implemented. The District implemented GASB 34 in Fiscal Year 2002 and presented comparative data for Fiscal Year 2001. Accordingly, the last seven fiscal years are presented.

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
2007	$53,250,481	$64,651,050	$ (11,400,569)	$ 9,793,692	$ (1,606,877)	$ 26,563,075	$ 24,956,198
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

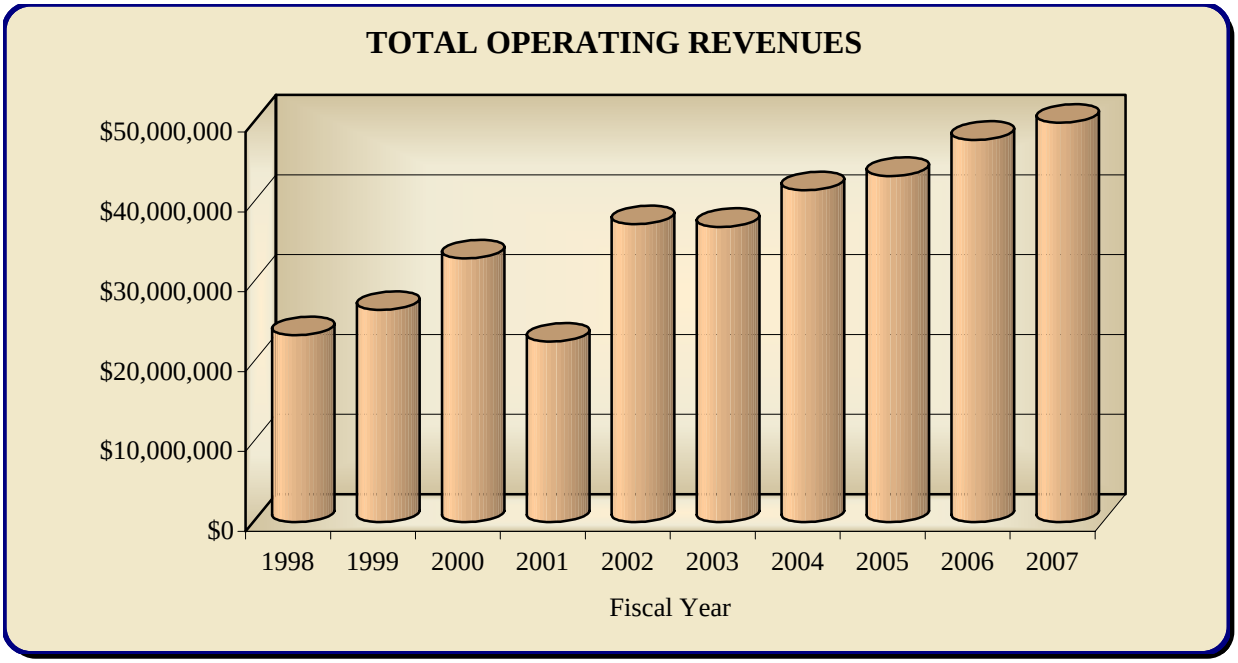


(1) As recommended by GASB 44, this schedule provides data retroactive to the year GASB 34 was implemented. The District implemented GASB 34 in Fiscal Year 2002 and presented comparative data for Fiscal Year 2001. Accordingly, the last seven fiscal years are presented.

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
2007	$ 48,605,606	$ 2,604,431	$ 2,040,444	$ 53,250,481	11.3%
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%

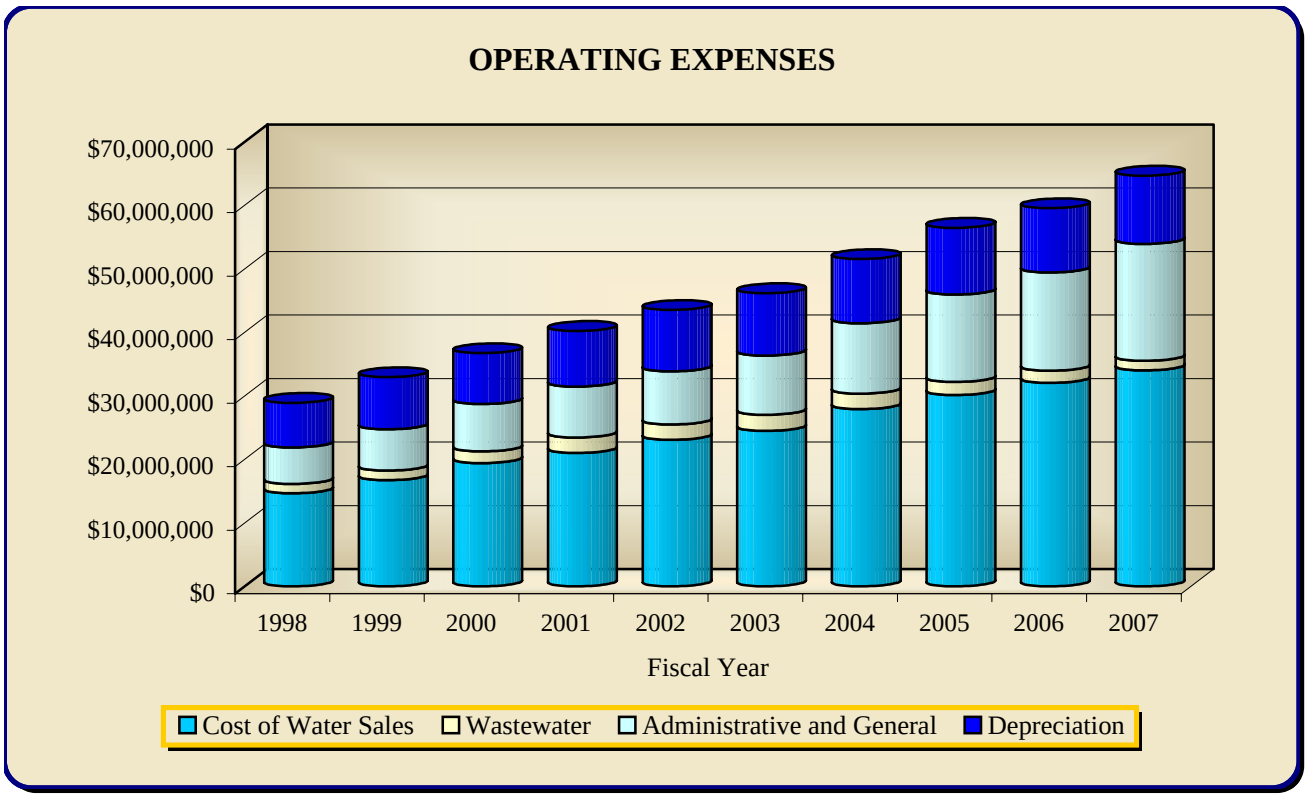


(1) During the year ended June 30, 2001, the District's Board authorized three separate potable water rebates totaling $9,700,089. The rebates were accounted for as a reduction of Water Sales.

Source: *Otay Water District*

OPERATING EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS

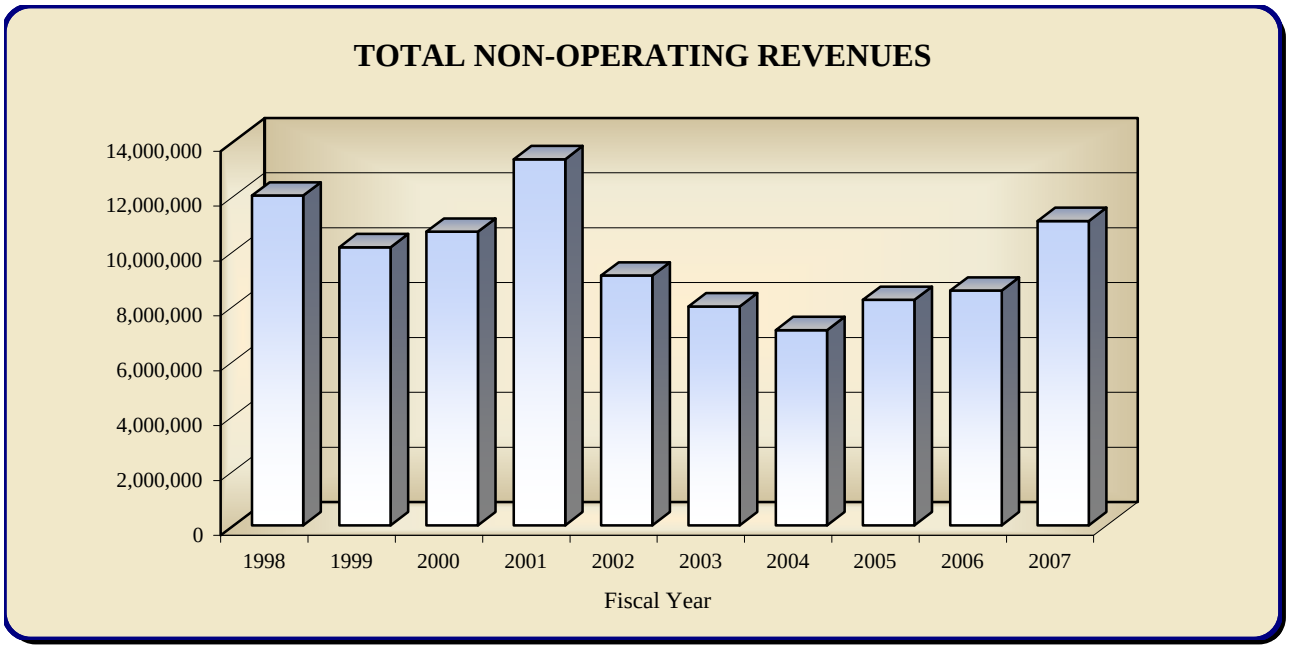
Year	Water Sales	Wastewater	Administrative and General	Depreciation	Total	Percent Change
2007	$ 33,994,841	$ 1,508,672	$ 18,418,441	$ 10,729,096	$ 64,651,050	8.6%
2006	32,043,395	1,899,957	15,477,287	10,107,455	59,528,094	5.5%
2005	30,127,087	2,050,643	13,747,611	10,524,134	56,449,475	9.6%
2004	27,899,376	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%



Source: *Otay Water District*

NON-OPERATING REVENUES BY SOURCE
LAST TEN FISCAL YEARS

Fiscal Year	Investment Income	Taxes and Assessments	Availability Charges	Miscellaneous	Total	Percent Change
2007	$ 4,416,342	$ 4,151,956	$ 715,664	$ 1,811,619	$ 11,095,581	29.7%
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%

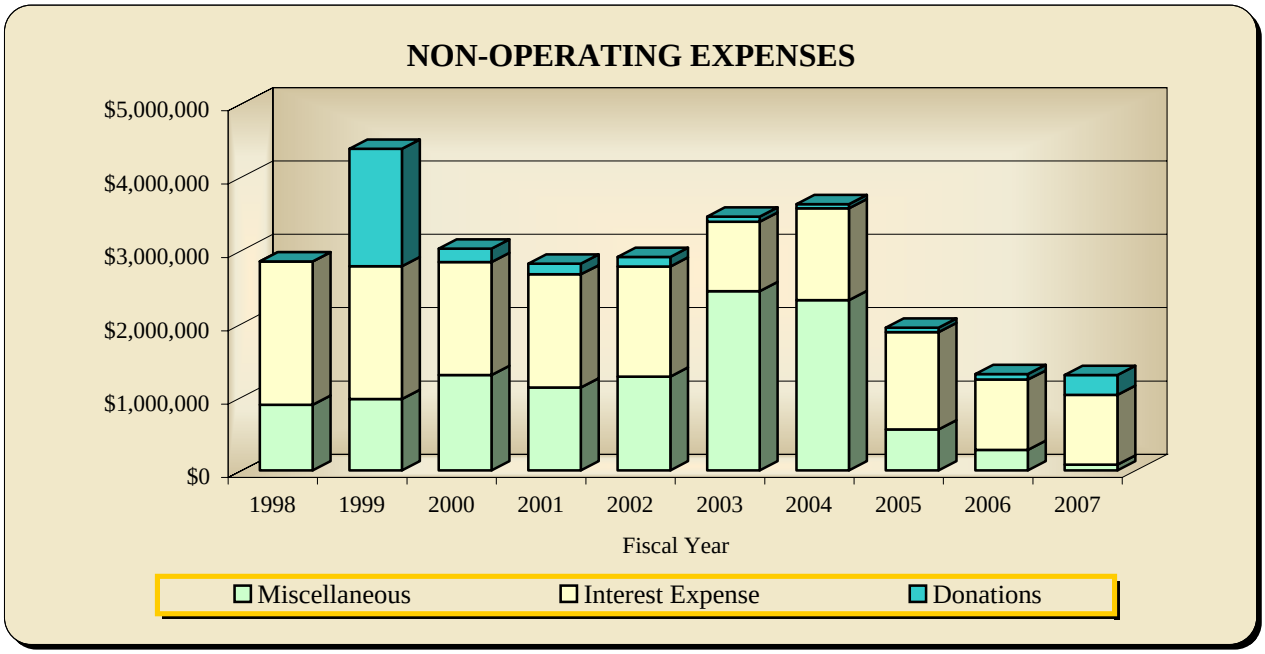


(1) The District sold capital assets during Fiscal Year 2005 which resulted in a gain of $2,196,655.

Source: *Otay Water District*

NON-OPERATING EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS

Fiscal Year	Donations (1)	Interest Expense	Miscellaneous	Total	Percent Change
2007	$ 80,000	$ 950,479	$ 271,410	$ 1,301,889	-0.9%
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%

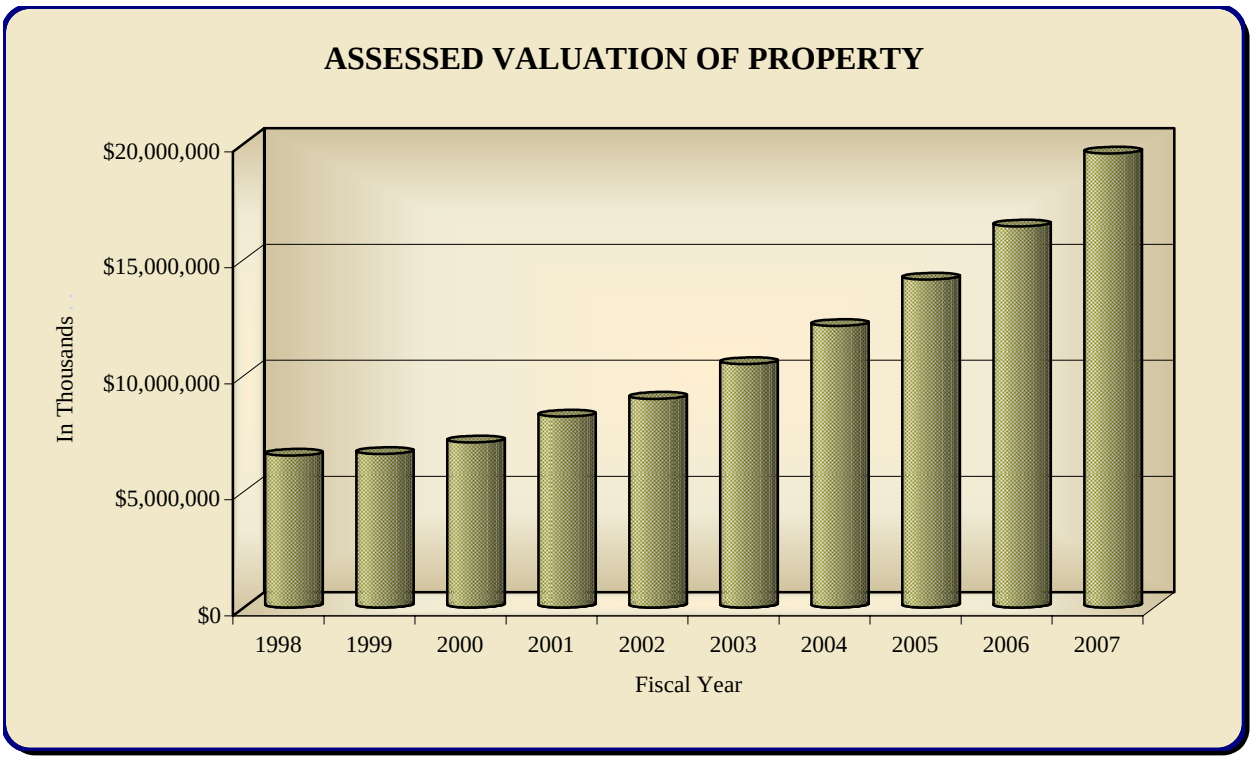


(1) Donations are contributions to the Water Conservation Authority formed in 1999. See Note 10 in the Notes to Financial Statements for more information.

Source: *Otay Water District*

Assessed Valuation of Taxable Property Within The District
Last Ten Fiscal Years

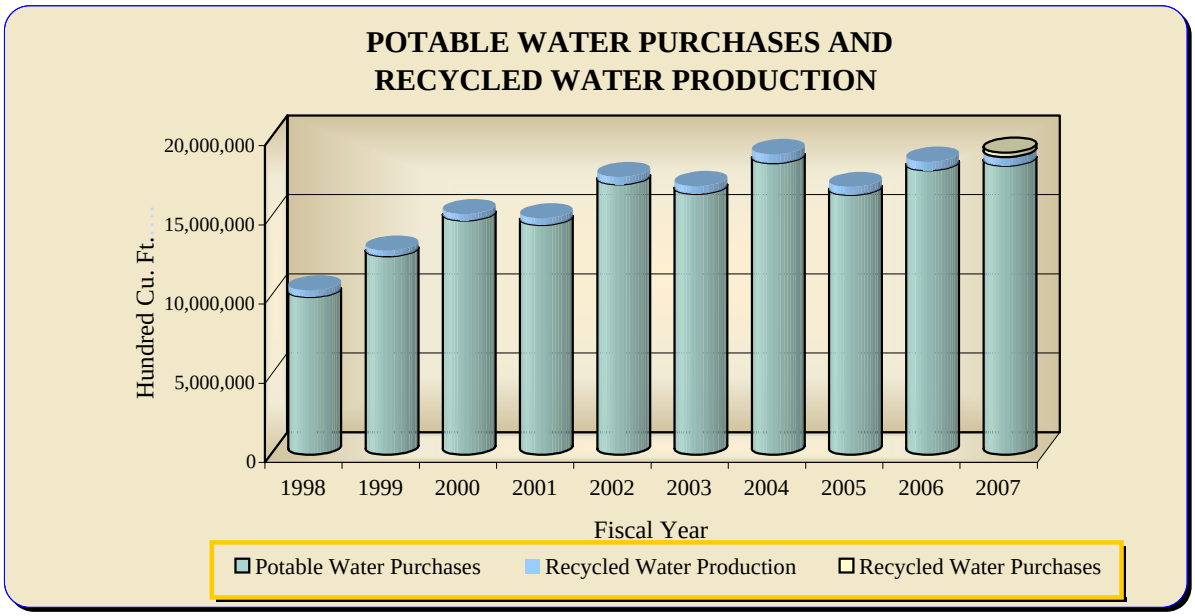
Fiscal Year	Secured	Unsecured	Total	Percent Change
2007	$ 22,166,251,649	$ 518,441,943	$ 22,684,693,592	15.94%
2006	19,204,029,184	361,636,280	19,565,665,464	19.13%
2005	16,121,465,817	301,937,884	16,423,403,701	16.23%
2004	13,833,852,366	296,691,701	14,130,544,067	16.50%
2003	11,786,410,218	343,253,933	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%



Source: *County of San Diego Auditor and Controller*

WATER PURCHASES, PRODUCTION, AND SALES
LAST TEN FISCAL YEARS

Fiscal Year	Potable Water (1) Per 100 Cubic Feet Purchases	Potable Water (1) Per 100 Cubic Feet Sales	Recycled Water (1) Per 100 Cubic Feet Production	Recycled Water (1) Per 100 Cubic Feet Purchases	Recycled Water (1) Per 100 Cubic Feet Sales
2007	18,255,735	16,059,464	550,206	284,499 (2)	1,920,287
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



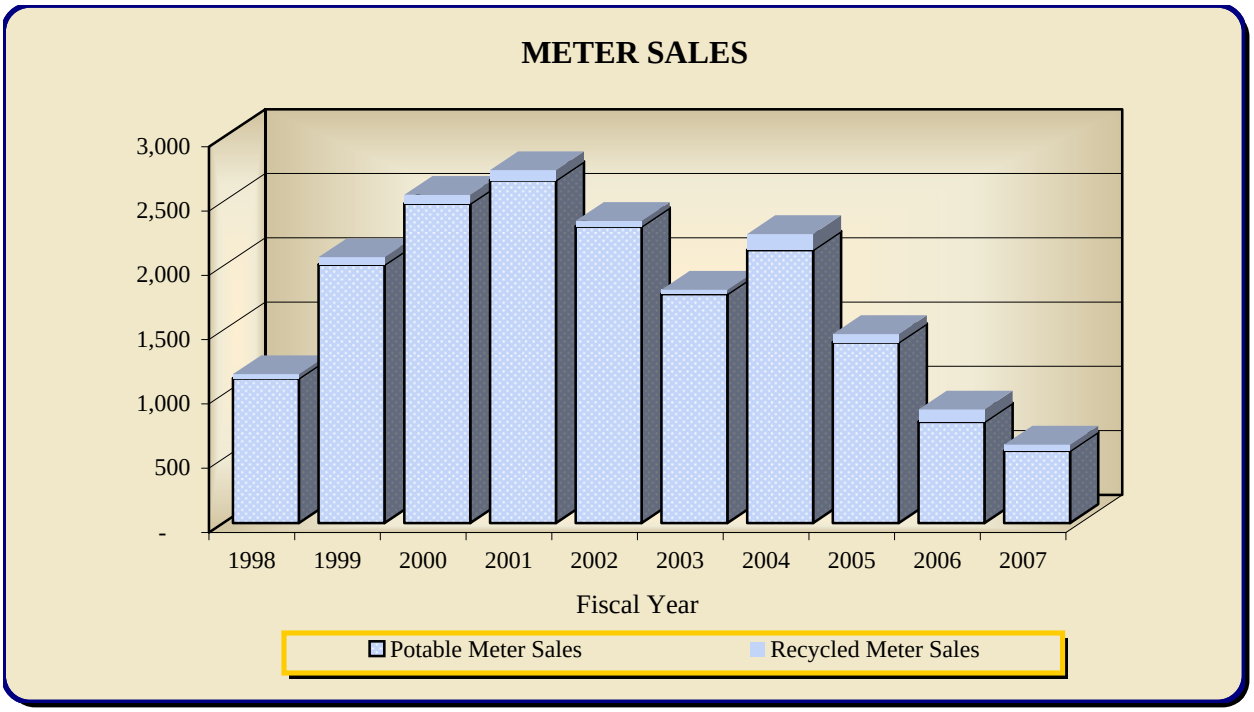
(1) Rates are not presented on this schedule because the District has multiple water rates for various meter sizes and cannot represent rates in a meaningful manner with a weighted average rate. See Water and Sewer rates on page 65 for meter sizes and their corresponding water rates.

(2) The District entered into an agreement with the City of San Diego and began purchasing recycled water from their South Bay Water Reclamation Plant in 2007.

Source: *Otay Water District*

METER SALES BY TYPE
LAST TEN FISCAL YEARS

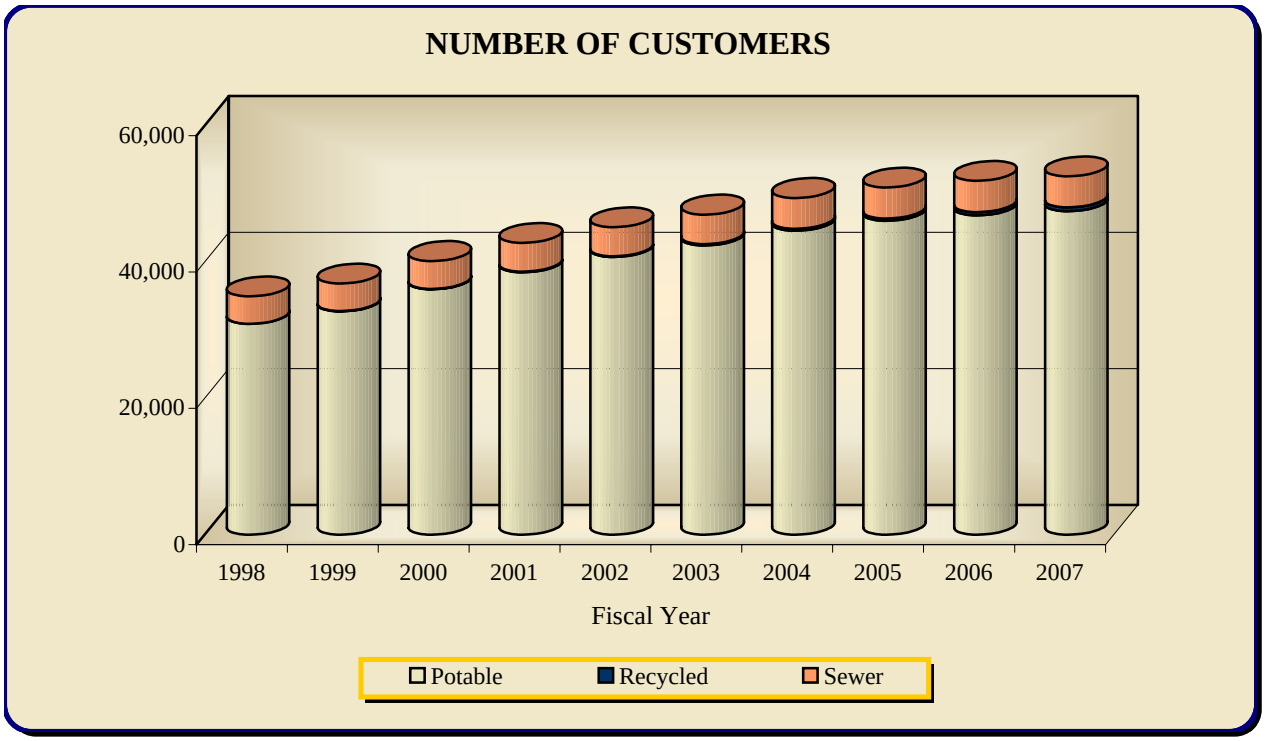
Fiscal Year	Potable	Recycled	Total
2007	563	85	648
2006	788	47	835
2005	1,406	95	1,501
2004	2,125	64	2,189
2003	1,782	123	1,905
2002	2,308	33	2,341
2001	2,667	43	2,710
2000	2,485	78	2,563
1999	2,010	69	2,079
1998	1,126	58	1,184



Source: *Otay Water District*

NUMBER OF CUSTOMERS BY SERVICE TYPE
LAST TEN FISCAL YEARS

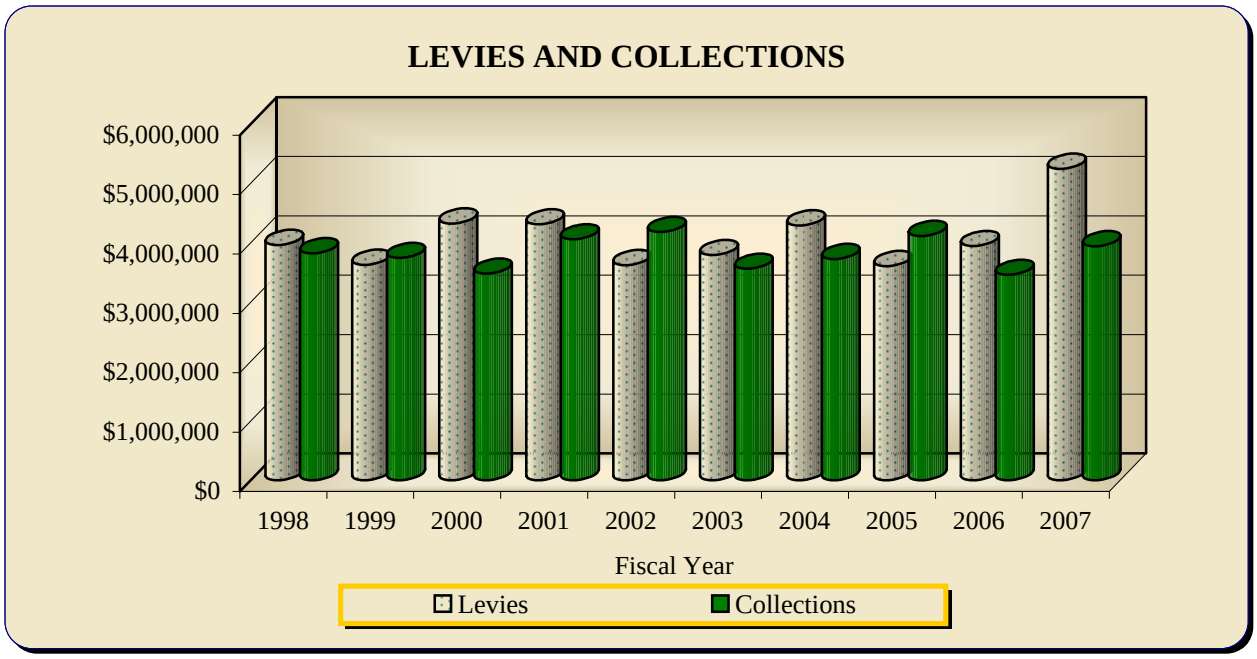
Fiscal Year	Potable	Recycled	Sewer	Total
2007	47,461	588	4,633	52,682
2006	46,851	558	4,571	51,980
2005	46,042	483	4,570	51,095
2004	44,583	348	4,548	49,479
2003	42,438	312	4,510	47,260
2002	40,732	189	4,342	45,263
2001	38,502	128	4,240	42,870
2000	36,005	106	4,199	40,310
1999	32,773	59	4,094	36,926
1998	30,943	44	4,030	35,017



Source: *Otay Water District*

PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Fiscal Year	LEVIES (1) 1% Property Tax	Special Assessments	Total Levies	Total Collections (1)	Net Receivable	Percent Collected
2007	$ 2,775,882	$ 2,465,497	$ 5,241,379	$ 5,263,367	$ (21,988)	100%
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%



(1) Levies and collections include Current Secured, Current Unsecured, and Supplemental Homeowners Exemptions.

Source: *Otay Water District*

WATER AND SEWER RATES
LAST TEN FISCAL YEARS

Base Rate (Meter Size)	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Residential										
3/4"	$ 11.30	$ 10.25	$ 10.25	$ 10.25	$ 10.25	$ 10.25	$ 10.25	$ 10.25	$ 10.25	$ 10.25
1"	18.15	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50
1.5"	35.75	32.50	32.50	32.50	32.50	32.50	32.50	32.50	32.50	32.50
Non-Residential & Others (1)										
3/4"	22.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
1"	33.90	30.80	30.80	30.80	30.80	30.80	30.80	30.80	30.80	30.80
1.5"	47.50	43.30	43.30	43.30	43.30	43.30	43.30	43.30	43.30	43.30
2"	59.60	54.20	54.20	54.20	54.20	54.20	54.20	54.20	54.20	54.20
3"	95.90	87.20	87.20	87.20	87.20	87.20	87.20	87.20	87.20	87.20
4"	109.80	99.80	99.80	99.80	99.80	99.80	99.80	99.80	99.80	99.80
6"	219.45	199.50	199.50	199.50	199.50	199.50	199.50	199.50	199.50	199.50
10"	418.90	380.50	380.50	380.50	380.50	380.50	380.50	380.50	380.50	380.50
Fire Services										
All Types	23.30	21.20	21.20	21.20	21.20	21.20	21.20	21.20	21.20	21.20
Usage Rate										
Residential:										
Tier 1 (1-5)	1.08	1.05	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01
Tier 2 (6-25)	1.78	1.73	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.65
Tier 3 (26-35)	1.94	1.88	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.79
Tier 4 (36-50) (2)	2.83	2.75	2.65	2.13	2.13	2.13	2.13	2.13	2.13	2.11
Tier 5 (51+)	-	-	-	2.65	2.65	2.65	2.65	2.65	2.65	2.62
Master Meter:										
Tier 1 (1-5)	1.78	1.73	1.67	1.78	1.78	1.78	1.78	1.78	1.78	1.76
Tier 2 (6-25)	1.94	1.88	1.81	-	-	-	-	-	-	-
Tier 3 (16+)	2.83	2.75	2.65	-	-	-	-	-	-	-
Publicly-Owned	1.99	1.93	1.86	1.86	1.86	1.86	1.86	1.86	1.86	1.84
Commercial & Others (3)	1.91	1.85	1.78	1.78	1.78	1.78	1.78	1.78	1.78	1.76
Recycled (Commercial)	1.65	1.57	1.51	1.51	1.51	1.51	1.51	1.51	1.51	1.50
Recycled (Publicly-Owned)	1.73	1.65	1.59	1.59	1.59	1.59	1.59	1.59	1.59	1.58
Sewer Rates	32.70	30.90	26.90	23.35	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 2007

Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	$ 2,555,440	5.3%
2. State of California	Publicly Owned	993,602	2.0%
3. County of San Diego	Publicly Owned	801,420	1.6%
4. Eastlake III	Business/Irrigation (Reclaimed)	576,165	1.2%
5. McMillin	Construction (Potable)	571,469	1.2%
6. Eastlake Country Club	Irrigation (Reclaimed, Permanent)	547,092	1.1%
7. Country Hills Apartments	Residential (Master Meter)	491,231	1.0%
8. Otay River Construction	Construction (Potable, Temporary)	386,212	0.8%
9. Salt Creek Partners LLC	Irrigation (Reclaimed, Permanent)	383,076	0.8%
10. Otay Project LP	Construction (Potable, Temporary)	365,690	0.8%
Total (10 Largest)		$ 7,671,398	15.8%
Other Customers		$ 40,934,208	84.2%
Total Water Sales		$ 48,605,606	100.0%

FISCAL YEAR 2004 (1)

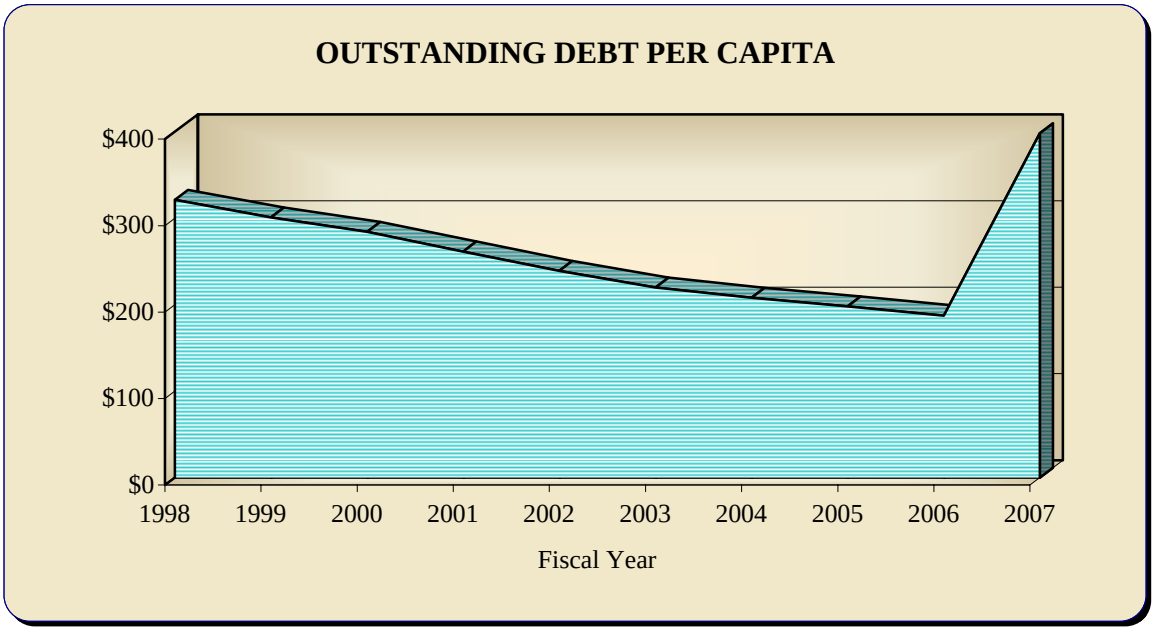
Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	$ 1,127,011	2.9%
2. State of California	Publicly Owned	849,140	2.2%
3. County of San Diego	Publicly Owned	725,507	1.9%
4. Steele Canyon	Irrigation (Potable Permanent)	526,582	1.3%
5. Eastlake III	Business/Irrigation (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. Eastlake Country Club	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 its ten largest customers until Fiscal Year 2004, data for nine years ago is 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)
2007	190,000	$ 8,445,029	$65,851,790	1,350,778	-	$75,647,597	398.15	0.93%
2006	189,000	8,776,755	24,909,352	1,659,037	51,589	35,396,733	187.28	0.46%
2005	186,000	9,093,482	25,653,607	1,956,871	100,666	36,804,626	197.87	0.49%
2004	180,000	9,395,209	25,666,312	2,244,633	147,343	37,453,497	208.07	0.54%
2003	176,000	9,681,937	26,298,239	2,522,665	191,742	38,694,583	219.86	0.61%
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%

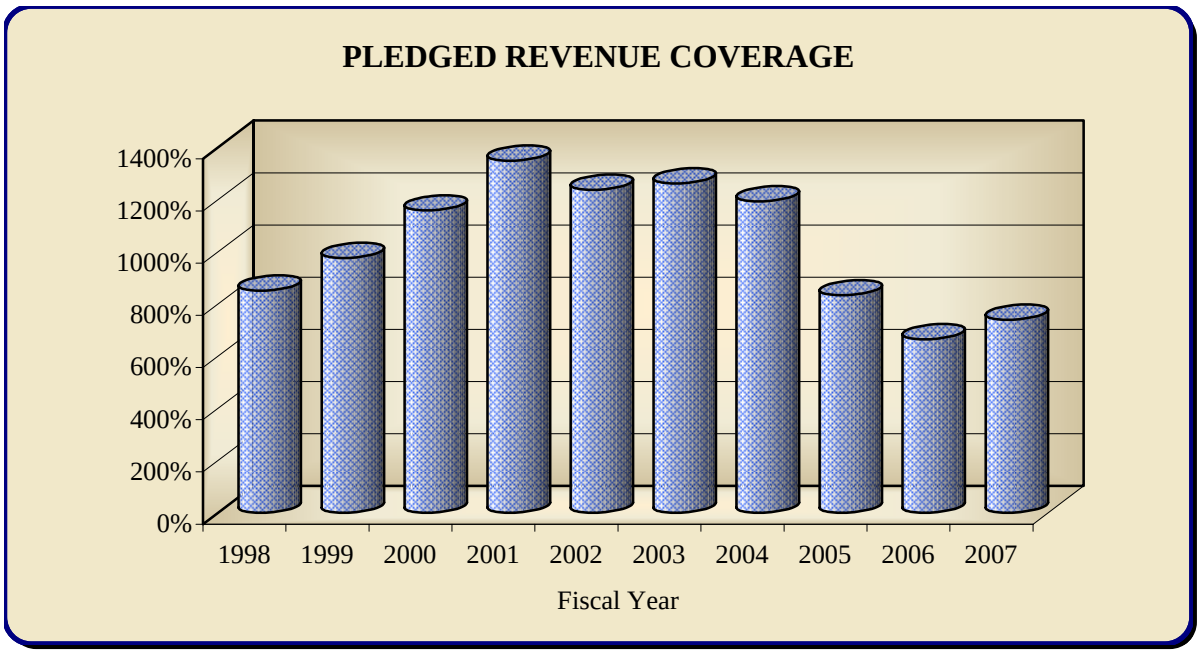


(1) See the Demographics and Economic Statistics schedule on page 70 for personal income data. Because per capita personal income data was not available for 2007 the percentage for 2007 was calculated using per capita personal income for 2006.

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	
2007	$ 69,442,301	$ 52,413,282	17,029,019	$790,000	$1,513,834	2,303,834	739%
2006	58,572,428	47,520,682	11,051,746	745,000	917,790	1,662,790	665%
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%

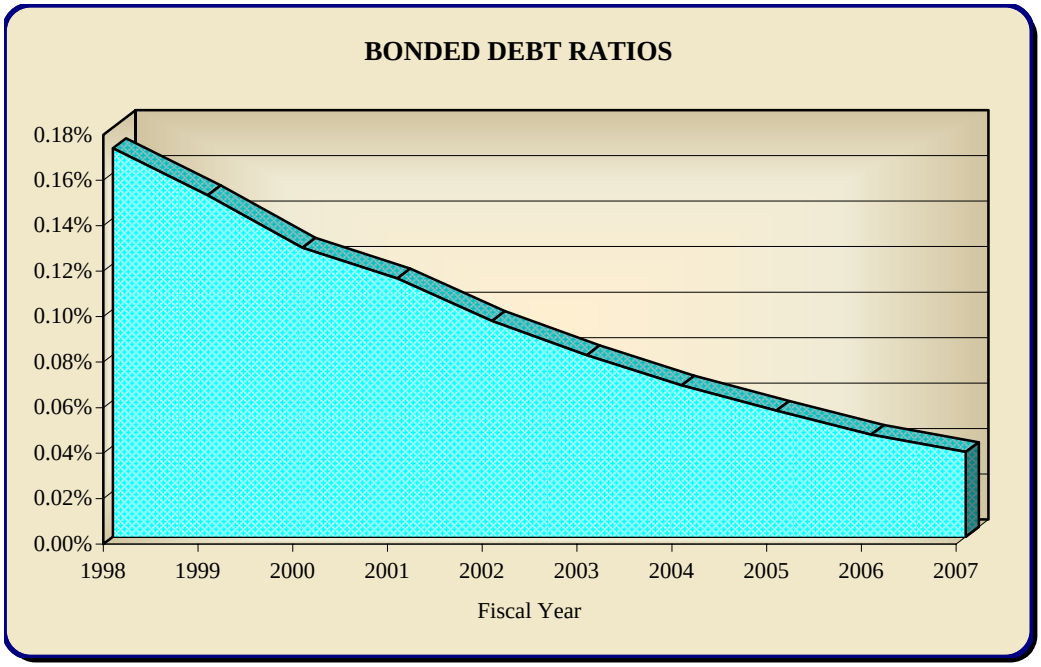


(1) Adjusted revenues exclude sewer revenues and taxes collected for Improvement District 27 and are inclusive of capacity fees.
(2) Adjusted operating expenses exclude sewer expenses and depreciation expense.
(3) The District's bond covenants require a minimum coverage factor of 120%.

***Source** : Otay Water District*

RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	Population Estimate	Assessed Valuation	Net Bonded Debt	Net Bonded Debt to Assessed Valuation	Net Bonded Debt Per Capita
2007	190,000	$ 22,684,693,592	$8,449,025	0.04%	44.47
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



Source: *Otay Water District*

COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
JUNE 30, 2007

2006-07 Assessed Valuation:	$ 22,684,693,593.00
Redevelopment Incremental Valuation:	234,388,909
Adjusted Assessed Valuation:	$ 22,450,304,684.00

OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/2007	% Applicable (1)	District's Share of Debt 6/30/07
Metropolitan Water District	$ 351,215,000	1.379%	$ 4,952,196
Otay Municipal Water District Improvement District No. 27	**9,210,000**	**100.000**	**9,210,000**
Padre Dam Municipal Water District Improvement District No. CB	235,000	0.026	61
Grossmont-Cuyamaca Community College District	144,324,623	17.510	25,271,241
Southwestern Community College District	88,567,442	45.910	40,661,313
Grossmont Union High School District	173,780,422	18.061	31,386,482
Sweetwater Union High School District	178,139,415	53.568	95,425,722
Chula Vista City School District	85,960,000	63.497	54,582,021
San Ysidro School District	56,994,363	48.269	27,510,609
Other School Districts	1,834,707,966	Various	32,408,520
City of San Diego	9,905,000	0.929	92,017
San Diego Open Space Park Facilities District No. 1	13,500,000	0.929	125,415
City of Chula Vista Community Facilities District	249,815,000	100	249,815,000
Chula Vista City School District Community Facilities Districts	7,425,000	100	7,425,000
Sweetwater Union High School District Community Facilities Districts	193,304,633	2.523-100	180,448,680
City 1915 Act Bonds (Estimate)	73,873,197	37.539-100	60,305,300
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT			$ 819,619,577
Less: San Diego Open Space Park Facilities District No. 1 (self-supporting)			125,415
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT			$ 819,494,162
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	$ 351,215,000	7.107%	$ 24,960,850
San Diego County Pension Obligations	1,343,747,916	7.107	95,500,164
San Diego Superintendent of Schools Certificates of Participation	18,042,500	7.107	1,282,280
Otay Water District Certificates of Participation	**66,135,000**	**100.000**	**66,135,000**
Southwestern Community College District General Fund Obligations	3,945,000	17.510 & 45.910	1,213,330
Grossmont Union High School District Certificates of Participation	1,712,000	18.061	309,295
Sweetwater Union High School District Certificates of Participation	12,145,000	53.568	6,505,834
Chula Vista City School District Certificates of Participation	133,905,000	63.497	85,025,658
San Ysidro School District Certificates of Participation	25,910,000	48.269	12,506,498
Other School District Certificates of Participation	20,085,000	Various	5,281,579
City of Chula Vista Certificates of Participation	119,520,000	72.439	86,579,093
City of Chula Vista Pension Obligations	10,415,000	72.439	7,544,522
City of San Diego General Fund Obligations	481,270,000	0.929	4,470,998
San Miguel Consolidated Fire Protection District Certificates of Participation	8,615,000	57.190	4,926,919
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			$ 402,242,020
Less: **Otay Water District Certificates of Participation (self-supporting)**			**66,135,000**
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			$ 336,107,020
GROSS COMBINED TOTAL DEBT (2)			$ 1,222,046,597
NET COMBINED TOTAL DEBT			$ 1,155,786,182

(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 2006-07 Assessed Valuation:

Total Gross Overlapping Tax and Assessment Debt	3.61%
Total Net Overlapping Tax and Assessment Debt	3.61%

Ratios to Adjusted Assessed Valuation:

Gross Combined Direct Debt ($66,135,000)	**0.29%**
Net Combined Direct Debt	**0.00%**
Gross Combined Total Debt	5.44%
Net Combined Total Debt	5.15%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: $10

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

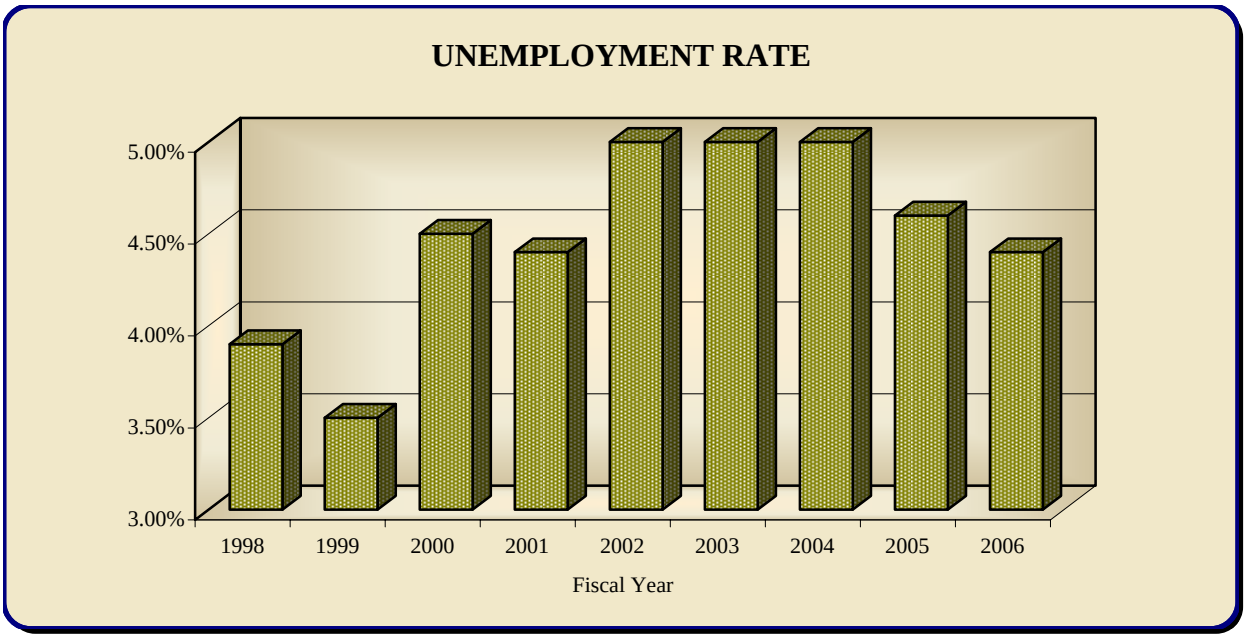
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2007			1998		
Employer	**Employees**	**Rank**	**% of Total County Employment**	**Employees**	**Rank**	**% of Total County Employment**
United States Navy	42,000	1	2.87%	-	-	-
Federal Government	39,100	2	2.67%	44,200	1	3.53%
State of California	37,100	3	2.53%	32,400	2	2.59%
University of California, San Diego	24,790	4	1.69%	21,444	4	1.71%
San Diego Unified School District	21,073	5	1.44%	25,230	3	2.01%
City of San Diego	20,700	6	1.41%	11,085	6	0.88%
County of San Diego	18,900	7	1.29%	17,700	5	1.41%
Sharp Healthcare	13,872	8	0.95%	8,111	8	0.65%
United States Postal Service	11,611	9	0.79%	7,162	9	0.57%
Scripps Health	10,313	10	0.70%	-	-	-
Kaiser Permanente	-	-	-	5,959	10	0.48%
Qualcomm, Inc.	-	-	-	10,431	7	0.83%
Total	239,459		16.36%	183,722		14.67%

Source: *San Diego County Water Authority and County of San Diego*

DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Year		Population	Personal Income	Per Capita Personal Income	Unemployment Rate
2006	(1)	299,398,484	$ 125,885,164	$ 42,797	4.40%
2005		296,507,061	119,135,889	40,569	4.60%
2004		293,656,842	113,062,259	38,536	5.10%
2003		290,656,005	104,630,453	35,810	5.60%
2002		287,984,799	100,655,726	34,688	5.60%
2001		285,107,923	97,009,480	33,865	4.40%
2000		282,193,477	92,654,006	32,799	4.50%
1999		275,130,000	84,346,910	30,236	3.50%
1998		272,690,813	77,968,184	28,490	3.90%

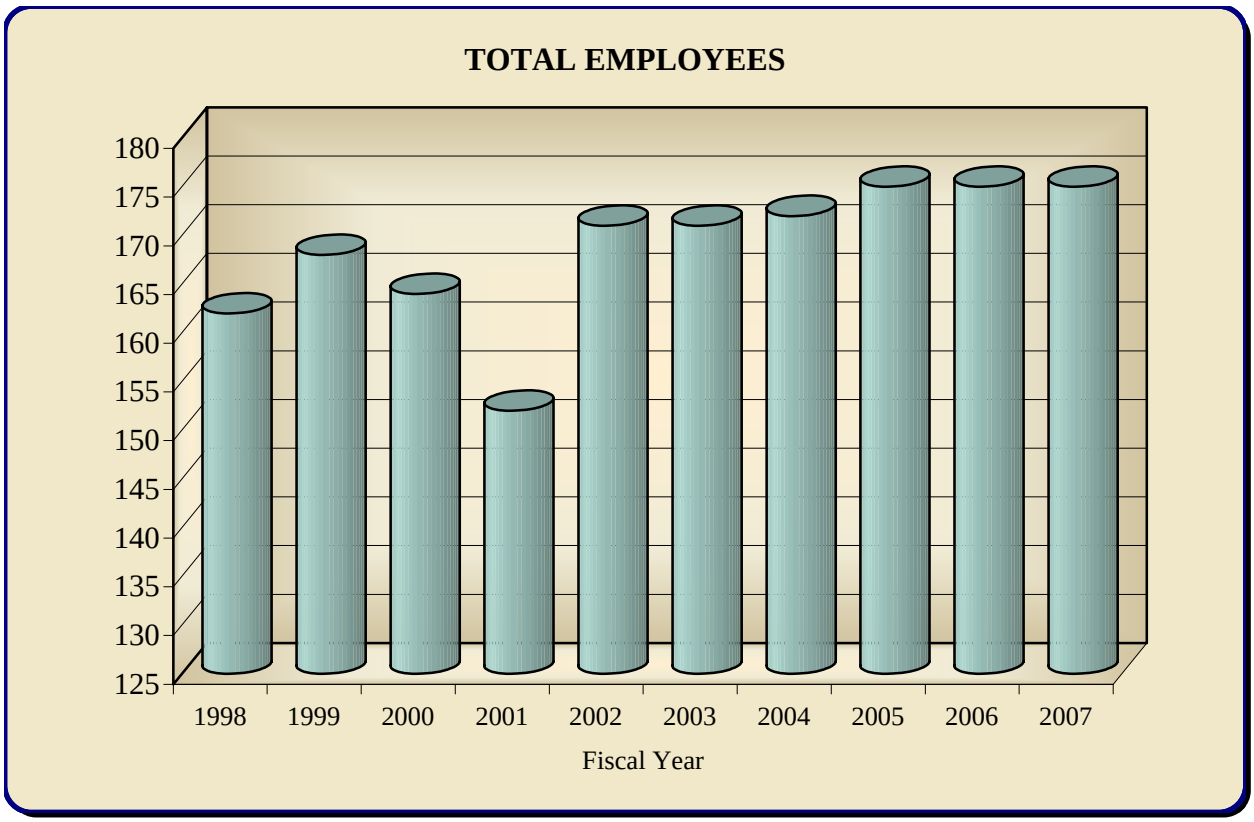


(1) Information for Fiscal Year 2007 was not available at the time of this report.

Source: *County of San Diego*

NUMBER OF EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Department	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General Manager	6	6	6	4	4	3	6	8	8	6
Finance	35	34	34	33	32	32	33	33	32	29
Operations/Maintenance	71	72	71	70	70	71	73	74	71	68
Engineering	31	15	13	33	31	24	27	32	31	28
Administrative Services	19	19	20	21	24	16	19	14	14	12
IT and Strategic Planning	13	12	11	10	10	6	6	7	6	4
Development Services (1)	-	17	17	-	-	-	-	-	-	-
Total	175	175	172	171	171	152	164	168	162	147

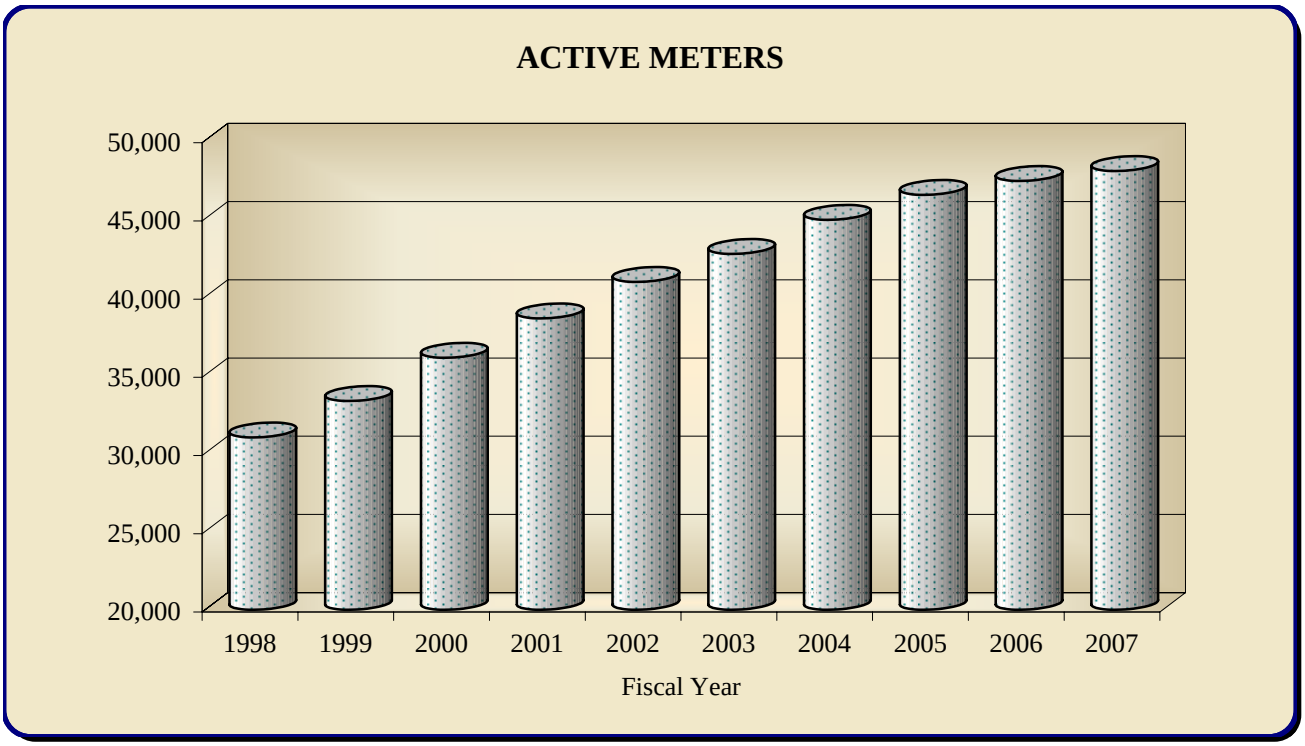


(1) Development Services was broken out from the Engineering and Planning Department in FY 2005 and then re-combined in FY 2007.

***Source** : Otay Water District*

ACTIVE METERS BY SIZE
LAST TEN FISCAL YEARS

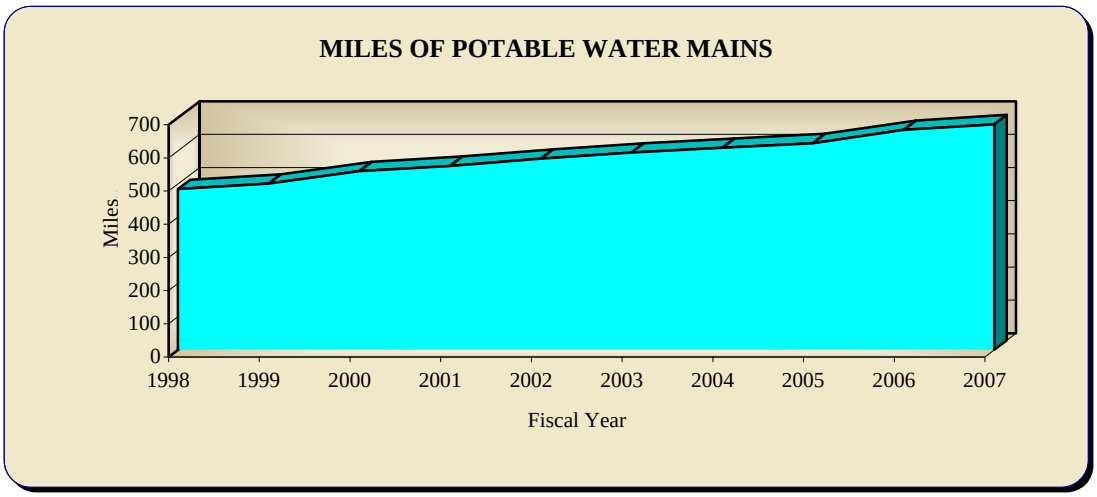
Meter Size	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
3/4"	43,544	43,070	42,420	41,069	39,138	37,178	35,014	32,672	30,456	28,515
1"	1,618	1,514	1,364	1,220	1,132	1,110	1,079	1,041	1,010	881
1-1/2"	1,242	1,199	1,147	1,037	918	889	837	806	766	660
2"	1,262	1,242	1,199	1,168	1,140	1,124	1,084	1,059	992	858
3"	76	69	67	66	61	57	50	43	40	35
4"	275	277	289	329	308	526	496	431	55	48
6"	24	27	27	27	27	40	35	34	14	12
Others	7	11	12	15	26	35	35	25	12	11
Total	48,048	47,409	46,525	44,931	42,750	40,959	38,630	36,111	33,345	31,020
% Change	1.3%	1.9%	3.5%	5.1%	4.4%	6.0%	7.0%	8.3%	7.5%	2.8%
Increase	639	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

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Water System										
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	680	663	623	609	594	576	554	539	501	484
Number of Operational Storage Reservoirs in Service	37	37	36	37	37	38	37	37	37	38
Water Storage Capacity (in Acre-Feet)	601.7	601.7	582.4	585.4	582.3	587.5	538.4	538.4	538.4	541.4
Total Water Connections (No. of Meters in Service)	47,615	47,409	46,525	44,931	42,750	40,959	38,630	36,111	33,345	31,020
Number of Pump Stations	24	22	21	21	21	21	20	20	20	20
Number of Potable Water Valves	18,721	18,042	17,696	16,204	15,830	15,073	14,296	13,519	12,340	11,846
Sewer System										
Miles of Sewer Lines	86.2	86.2	85.9	85.4	84.8	83.5	82.9	82.1	81.3	80.9
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 2007 (in Million Gallons)	514	528	506	479	463	455	452	442	413	456
Recycled System										
Miles of Recycled Water Mains	83.0	77.6	76.4	70.7	60.6	49.2	40.3	37.7	29.3	20.8
Number of Pumping Facilities	3	2	2	2	2	1	1	1	1	1
Number of Acre-Feet Storage	134.1	97.3	97.3	97.3	97.3	86.9	86.9	86.9	86.9	86.9
Number of Recycled Water Valves	1,245	1,189	1,155	1,097	948	730	588	542	437	282



***Source** : Otay Water District*

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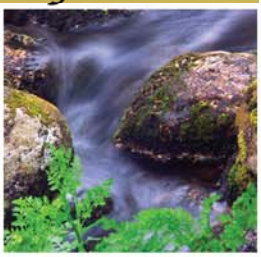

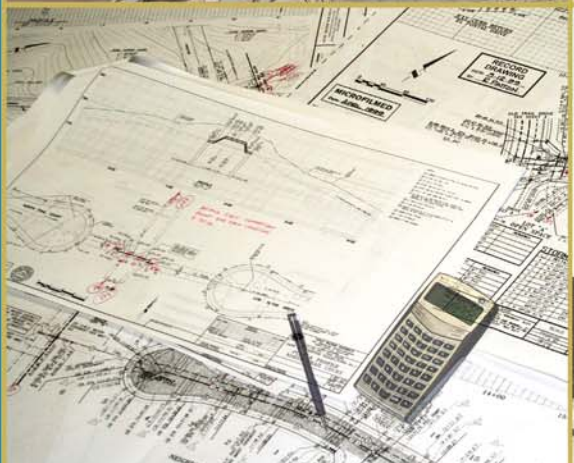

Otay Water District
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