

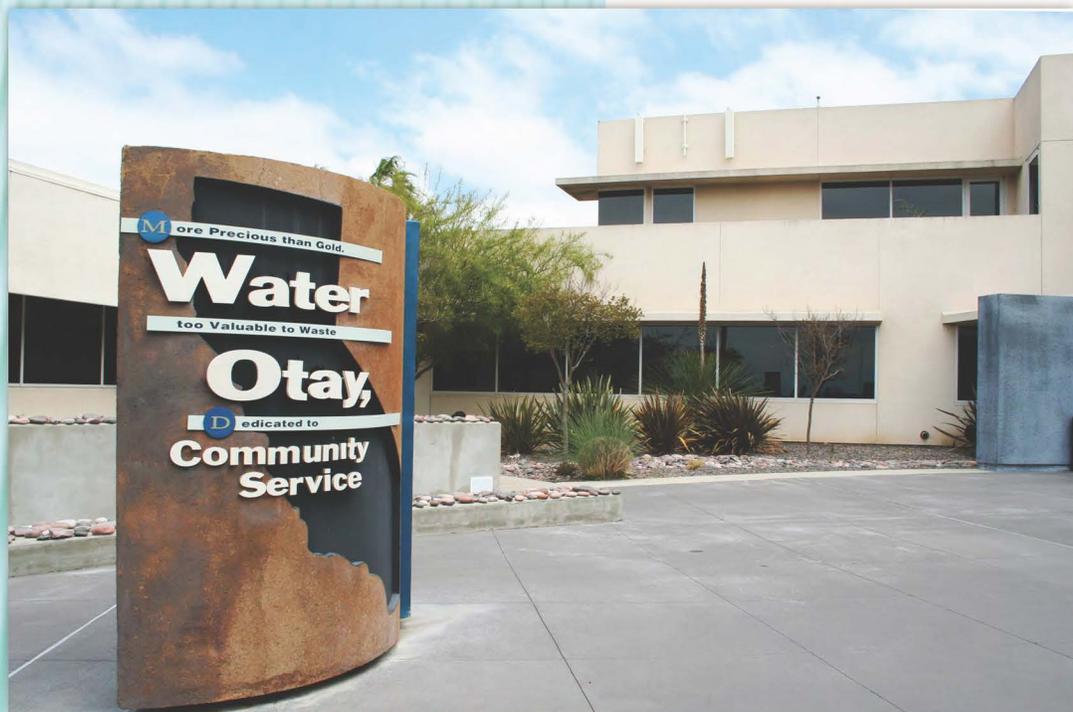


Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2012

Prepared by:

Finance Department
Spring Valley, California





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...Dedicated to Community Service

2594 SWEETWATER SPRINGS BOULEVARD, SPRING VALLEY, CALIFORNIA 91978-2004
TELEPHONE: 670-2222, AREA CODE 619

October 15, 2012

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, 2012.

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 the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the District's management. 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 the District's operations. 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 White Nelson Diehl Evans LLP, 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, 2012, 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, 2012, 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 only their fair share of the District's costs of water acquisitions, construction, operation, maintenance, betterment, renewal, and replacement of the public water and sewer facilities.

The General Manager reports directly to the Board of Directors and, through the Assistant General Manager and the District management, oversee day-to-day operations. The Assistant General Manager oversees the five departments of Administrative Services, Finance, Information Technology and Strategic Planning, Water Operations, and Engineering. These and other lines of reporting are shown on the organization chart on page 8.

Over the last 56 years, the District has grown from a handful of customers and two employees to become an organization operating a network of more than 911 miles of pipelines, 44 operational reservoirs, a reclaimed water facility, and one of the largest recycled water distribution networks in the State of California. 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 48,860 potable and 702 recycled customers within approximately 125.5 square miles of the southeastern San Diego metropolitan area. All of the potable water sold to customers is purchased through the San Diego County Water Authority (CWA). Much of this water is purchased from



the region's water importer, the Metropolitan Water District of Southern California (MWD), or Imperial Irrigation District. The District also has entered into an agreement with the CWA to have the neighboring Helix Water District treat imported water, on behalf of the Otay Water District, at their Levy Water Treatment Plant. This action has brought regional water treatment closer to our customers and helped reduce dependence on water treatment facilities located outside of San Diego County.

To deliver this locally treated water to customers, the District constructed a 5.1 mile, 36-inch diameter pipeline. Drinking water delivered by this new pipeline is stored in two 10 million gallon reservoirs. In addition to bringing water treatment closer to customers, this new source of water diversifies the District's supply and improves reliability.

The District also owns and operates a wastewater collection and recycling system providing public sewer service to approximately 4,652 customer accounts within portions of the communities of La Mesa, Rancho San Diego, El Cajon, Jamul, and Spring Valley.



Wastewater collected is conveyed to the District's Ralph W. Chapman Water Recycling Facility (RWCWRF), which is capable of reclaiming wastewater at a rate of 1.3 million gallons per day. The District also has the capability to purchase up to 6 million gallons per day of recycled water from the City of San Diego's South Bay Reclamation Plant. Recycled water from these two sources is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The use of recycled water reduces dependency on imported supplies and provides a local supply, thereby diversifying District resources.

MISSION, CURRENT ECONOMIC CONDITIONS, AND OUTLOOK

The mission of the District is to provide high value water and wastewater services to the customers of the Otay Water District, in a professional, effective, and efficient manner.

As with the past few years, we continue to face numerous challenges with the large economic slowdown and ongoing home foreclosures, however, this slowdown appears to have leveled off as the District's Public Services Division approved on average 40 permits per month, and sold 316 water meters in Fiscal 2011-2012. The coming years will continue to pose challenges for those in California's water community. It is uncertain if the challenges facing the Sacramento-San Joaquin Bay Delta, the source of 30% of Southern California's water supply, will be addressed. In addition, weather and rainfall always bring a level of uncertainty to the delivery of water to customers in the arid southwestern states. The combination of these factors add to the cost of providing a stable supply of water as water providers look to new and more costly sources of water.

Growth in San Diego County has slowed over the last four years, but is gradually improving and population within the District's service area continues to increase, albeit at a reduced rate. As of July 2012, it is estimated that the District served 208,000 residents. The San Diego Association of Governments (SANDAG), the regional planning agency, has estimated the District's approximate growth will be 1.7% per year for the next decade. The District projects an ultimate customer population of 285,000 residents.

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 along with variance explanations to all department heads, with top level information provided to the Board at the monthly board meetings.

BUDGET SUMMARY

The District's Fiscal Year 2013 budget is \$100.3 million, with operating expenditures of \$82.3 million and capital expenditures of \$18.0 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 Otay Water District's operating expenditures consist of three major sectors: potable water, recycled water, and sewer, totaling \$82,318,200 for Fiscal Year 2013. Revenues from potable and recycled water are projected to be \$69,456,800, about \$4,152,500 (6.4%) more than the Fiscal Year 2012 budget. Water revenues are expected to increase as a result of water supply rate increases of 7.5% from MWD and 9.1% from CWA. The wholesale prices are increasing because of the high cost of supply programs, energy, and operating costs. Sewer revenues are projected to be \$2,555,200, about \$219,200 more than the Fiscal Year 2012 budget, because of necessary rate increases. The remaining revenue of \$10.3 million comes from special fees and assessments and miscellaneous income.



The 2011-12 Capital Improvement Program (CIP) budget consists of 70 projects and a budget of \$18.0 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth. This year's CIP budget decreased by \$4.6 million compared to last year's projection, which is due to the reduction in projects as a result of the slowdown in growth and deferment of several additional projects until growth resumes.

STRATEGIC PLAN

The Strategic Plan is the core document which guides the District's efforts to meet and positively adapt to change. Every three years the District engages in a major revision of its Strategic Plan. The current plan (covering fiscal years 2012 – 2014) is the fourth in a series of three-year plans than began in 2003.

The Strategic Plan is focused on the District's transformation from a growth-centric to a maintenance-based organization. Where growth has been a significant focus in prior years, today we have become equally focused in managing long-term maintenance and replacement of our infrastructure. Performance metrics and targets are a critical element of the Strategic Plan but differ from Strategic Plan objectives. Objectives identify the action items that are necessary

to achieve the strategic vision. Performance measures are designed to ensure the day-to-day operations of the utility are meeting agreed-upon expectations. Performance measures are revised from the prior year and updated quarterly, and reviewed by the Board on a semi-annual basis.

Our key District challenge is to add increased *value* by improving our core business processes. From a water supply perspective, this means determining the optimum mix of water supply, treatment, and delivery solutions for our customers. From a daily operating perspective, efficiency improvements have become the primary source of competitive advantage and cost optimization for utilities. Adding value from this perspective means the entire team focusing on not only the highest priority goals but also examining the details of what we do every day and be willing to alter how we do it if it makes a positive difference. Our employees voice a high degree of personal and professional satisfaction with our direction and the entire team is committed to meeting this key challenge with distinction.

The Future

The coming years will continue to pose challenges for those in California's water community. It is uncertain how the challenges facing the Sacramento-San Joaquin Bay Delta, the source of 30% of Southern California's water supply, will be addressed. In addition, weather and rainfall always bring a level of uncertainty to the delivery of water to customers in the arid southwestern states. The combination of these factors add to the cost of providing a stable supply of water as water providers look to new and more costly sources of water. However, through foresight, investments in drought-proof recycled water, conservation, and a water rate structure that rewards conservation, the Otay Water District has thus far avoided having to require mandatory water conservation. The District has instead achieved its water conservation goals using voluntary measures.

As one would expect, the anticipated reduction in water availability has impacted projected revenues and will continue to affect the District's finances. With that in mind, our success as an organization is vastly enhanced by the practices and policies put in place by the Board of Directors to ensure the strength and stability of the District, even as we move forward into uncertain times. We are fully confident that with these policies and practices, supported by dedicated and talented staff, the District will achieve continued success as an organization and thus assure the well-being of the people we serve.

ACCOUNTING SYSTEM

The Finance Department is responsible for providing financial services to the District, including financial accounting, reporting, payroll, accounts payable, 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 revenues are earned and expenses are incurred.

INTERNAL CONTROLS

Otay Water District operates within a system of internal controls established and continually reviewed by management. This provides reasonable, but not absolute, assurance that assets are adequately safeguarded and transactions are recorded correctly according to District policies and procedures. When establishing or reviewing controls, management must also consider the cost of the control and the value of the benefit derived from its utilization. Management maintains and implements all sensitive controls, and those controls whose value adequately exceeds their cost.

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 comply with these finance related legal and contractual provisions, including bond covenants and fiduciary responsibilities.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to Otay Water District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. This was the eighth consecutive year that the District has achieved this prestigious award. 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 Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition to the *Certificate of Achievement for Excellence in Financial Reporting*, Otay Water District has received the following awards:

The Government Finance Officers Association of the United States and Canada (GFOA) presented a *Distinguished Budget Presentation Award* to Otay Water District, California for its annual budget for the fiscal year beginning July 1, 2011. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Operating Budgeting for Fiscal Year 2011-2012*.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Capital Budgeting for Fiscal Year 2011-2012*.

The Municipal Information Systems Association of California (MISAC) presented the *2010-2011 Award for Excellence Information Technology Practices* to Otay Water District. The award recognizes outstanding practices in Information Technology that have met or surpassed local government standards.

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 White Nelson Diehl Evans LLP, for their professional work and opinion.

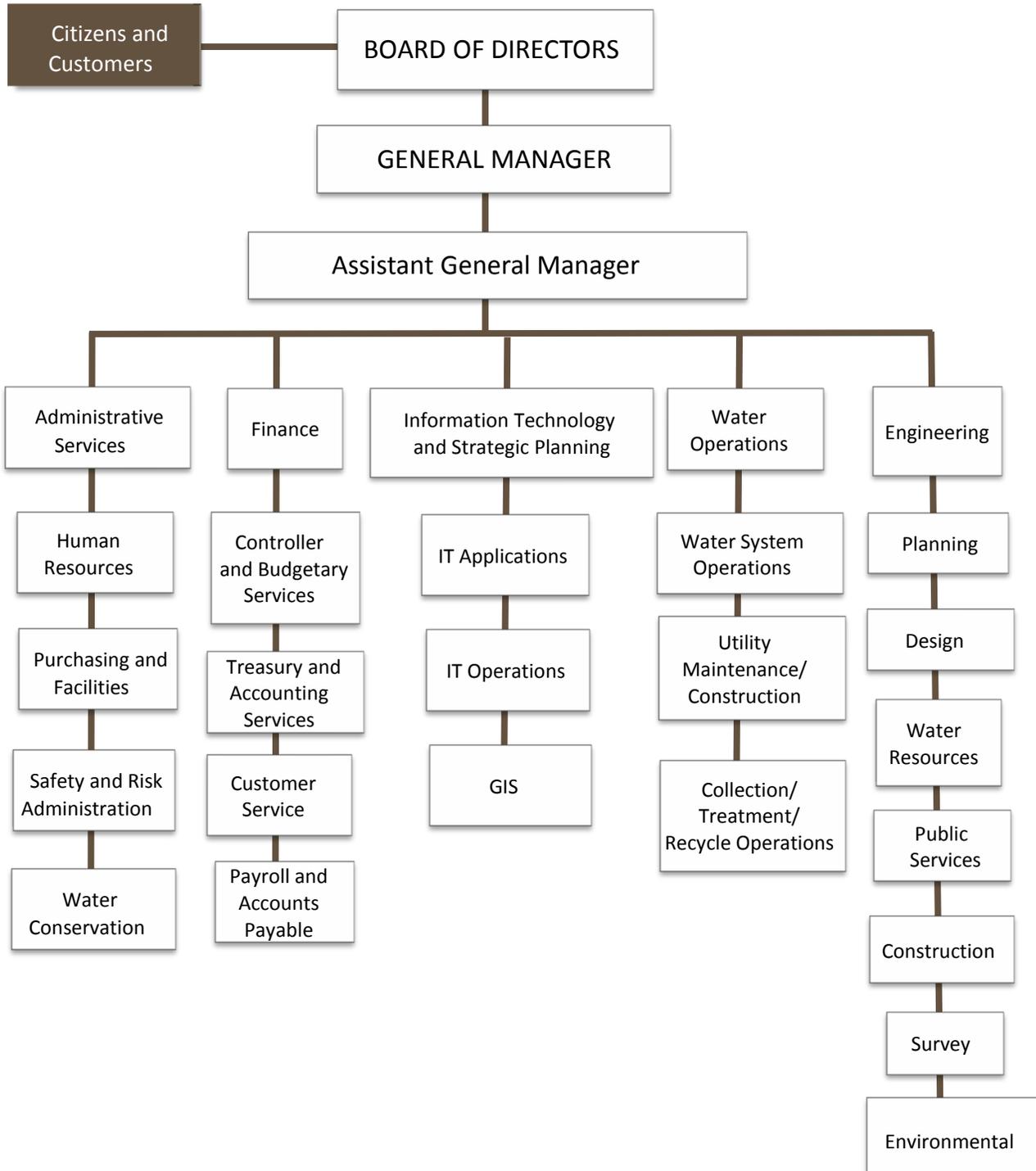
To the Board of Directors, staff and I acknowledge and appreciate their continued support and direction in achieving excellence in financial management.



Mark Watton, General Manager



Organization Chart



List of Principal Officials

Board of Directors - Fiscal Year 2011-2012

Division 1



David Gonzalez, Jr.
Vice President

Division 4



Jose Lopez
President

Division 3



Gary Croucher
Treasurer

Division 2



Mitchell Thompson

Division 5



Mark Robak

District Financial Management

Mark Watton - General Manager

German Alvarez - Assistant General Manager

Joseph R. Beachem - Chief Financial Officer

GFOA Certificate of Achievement

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, 2011

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.



Linda C. Danison

President

Jeffrey R. Egan

Executive Director

INDEPENDENT AUDITORS' REPORT

Board of Directors
Otay Water District
Spring Valley, California

We have audited the accompanying basic financial statements of Otay Water District as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These basic financial statements are the responsibility of the Otay Water District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Otay Water District as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts..

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, PERS Defined Benefit Pension Plan – schedule of funding progress, and Other Post-Employment Benefit Plan – schedule of funding progress, as identified in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section and the Statistical Section, as identified in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The Introductory Section and the Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

White Nelson Dick Evans LLP

October 15, 2012
Carlsbad, California

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, 2012. 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 \$456.4 million (*net assets*). Of this amount, \$70.0 million (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.
- Total assets decreased by \$6.3 million or 1.05% during Fiscal Year 2012, to \$592.3 million, due primarily to the write-off of CIP projects that were no longer viable as a part of the District's long range plans for growth and improvements to infrastructure. Other significant factors were the annual payment of long-term debt and a reduction in grant funds received.

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

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the 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 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, 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 \$456.4 million at the close of the most recent fiscal year.

By far the largest portion of the District's net assets, \$381.7 million (84%), reflects its investment in capital assets, less any remaining outstanding debt used to acquire those assets. 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 effectively as a resource, however, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Management's Discussion and Analysis

Statements of Net Assets (In Millions of Dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current and Other Assets	\$ 111.5	\$ 124.1	\$ 135.3
Capital Assets	<u>480.8</u>	<u>474.4</u>	<u>469.2</u>
 Total Assets	 <u>592.3</u>	 <u>598.5</u>	 <u>604.5</u>
Liabilities			
Long-Term Debt Outstanding	111.2	114.5	117.7
Other Liabilities	<u>24.7</u>	<u>24.4</u>	<u>25.5</u>
 Total Liabilities	 <u>135.9</u>	 <u>138.9</u>	 <u>143.2</u>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	381.7	377.7	375.9
Restricted for Debt Service	4.7	4.9	5.2
Unrestricted	<u>70.0</u>	<u>77.0</u>	<u>80.2</u>
 Total Net Assets	 <u>\$ 456.4</u>	 <u>\$ 459.6</u>	 <u>\$ 461.3</u>

While the District's operations and population continue to grow, albeit at slower rates than in prior years, the pattern of reduced growth of the District's Net Assets is indicative of the reduction in new development projects within the District. This reduction is a result of the ongoing national housing slump and financial crisis.

In FY-2012 the District continued its use of the \$51.2 million of proceeds from the issuance of its 2010 Water Revenue Bonds program (See Note 5 in the Notes to Financial Statements) for its CIP program (See Note 3 in the Notes to Financial Statements), as seen by the decrease in Current and Other Assets of \$12.6 million, which was partially offset by a corresponding increase in Capital Assets of \$6.4 million. The District also saw a decrease in Long-Term Debt of \$3.3 million due to the annual payments of long-term debt.

In response to the prolonged business slowdown, during FY-2011 the District performed a review of Fixed Assets throughout the system and wrote off \$2.9 million of fully depreciated Property, Plant & Equipment that was no longer serviceable or functioning efficiently. Additionally, the Engineering Department completed an analysis of several Construction-in-Progress projects that were still in the developmental stages and determined they were no longer viable as a part of the District's long range plan for growth and improvements to infrastructure. This resulted in FY-2011 expenses of \$1.2 million and FY-2010 expenses of \$1.3 million.

For the entire financial reporting period, Fiscal Years 2012 and 2011, Total Net Assets decreased approximately \$3.2 million for FY-2012, to \$456.4 million, as compared to FY-2011 when Net Assets decreased by \$1.7 million. At the end of FY-2012 the District is able to report positive balances in all categories of net assets. This situation also held true for the prior two fiscal years.

Management's Discussion and Analysis

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Water Sales	\$ 63.8	\$ 58.3	\$ 56.3
Wastewater Revenue	2.4	2.4	2.3
Connection and Other Fees	2.2	2.5	2.1
Non-operating Revenues	<u>9.1</u>	<u>8.8</u>	<u>8.9</u>
Total Revenues	<u>77.5</u>	<u>72.0</u>	<u>69.6</u>
Depreciation Expense	15.2	13.9	13.3
Other Operating Expense	66.5	63.4	59.8
Non-operating Expense	<u>5.8</u>	<u>4.3</u>	<u>3.0</u>
Total Expenses	<u>87.5</u>	<u>81.6</u>	<u>76.1</u>
Loss Before Capital Contributions	(10.0)	(9.6)	(6.5)
Capital Contributions	<u>6.8</u>	<u>7.9</u>	<u>8.8</u>
Change in Net Assets	(3.2)	(1.7)	2.3
Prior Period Adjustment			(1.3)
Beginning Net Assets	<u>459.6</u>	<u>461.3</u>	<u>460.3</u>
Ending Net Assets	<u>\$ 456.4</u>	<u>\$ 459.6</u>	<u>\$ 461.3</u>

Water Sales increased by \$2.0 million in FY-2011 and \$5.5 million in FY-2012, mainly due to rate increases in both years. The slowdown in growth throughout the District was also reflected in the modest increase in Connection and Other Fees of \$0.4 million in FY-2011, followed by a slight decrease of \$0.3 million in FY-2012.

Other Operating Expense increased predominantly due to the increase in Cost of Water Sales, from a combination of the increased price-per-acre-foot of water obtained from Los Angeles Metropolitan Water District of 7.50%, and 9.97% from San Diego County Water Authority, brought on by the high cost of supply programs as well as higher energy and operating costs.

The slowdown in the economy appears to have leveled off. However, due to the nationwide housing mortgage crisis throughout the last several years, developers have either slowed-down or totally stopped work on many projects until economic conditions improve and the demand for growth returns. This has resulted in Capital Contributions remaining low over the last 3-years, compared to the extended growth of the previous 10-years. While this slowdown now appears to have stabilized, the District was aided in its Capital Contributions through the receipt of additional federal grant monies of \$1.6 million in FY-2011, and \$935,000 in FY-2012.

Management's Discussion and Analysis

Non-operating Revenues

Non-operating Revenues by Major Source (In Millions of Dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Taxes and assessments	\$ 3.5	\$ 3.9	\$ 4.0
Rents and leases	1.2	1.2	1.1
Other Non-operating Revenue	<u>4.4</u>	<u>3.7</u>	<u>3.8</u>
Total Non-operating Revenues	<u>9.1</u>	<u>8.8</u>	<u>8.9</u>

The District's non-operating revenues decreased by \$0.1 million in FY-2011 and grew \$0.3 million in FY-2012. The increase in FY-2012 was primarily a result of increased miscellaneous income offset by decreases in investment income as well as taxes and assessments.

Capital Assets and Debt Administration

The District's capital assets (net of accumulated depreciation) as of June 30, 2012, totaled \$480.8 million. Included in this amount is land. The total increase in the District's capital assets was 1.1% for FY-2011 and 1.4% in FY-2012.

Capital Assets (In Millions of Dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 13.7	\$ 13.6	\$ 13.6
Construction in Progress	17.5	17.9	35.2
Water System	452.1	441.9	409.5
Recycled Water System	108.0	98.3	97.7
Sewer System	37.8	37.7	37.4
Field Equipment	8.6	9.8	9.5
Buildings	18.6	18.5	18.5
Transportation Equipment	3.2	3.2	3.3
Communication Equipment	2.5	2.4	1.3
Office Equipment	<u>17.2</u>	<u>17.3</u>	<u>18.4</u>
	679.2	660.6	644.4
Less Accumulated Depreciation	<u>(198.4)</u>	<u>(186.2)</u>	<u>(175.2)</u>
Net Capital Assets	<u>\$ 480.8</u>	<u>\$ 474.4</u>	<u>\$ 469.2</u>

As indicated by figures in the table above, the majority of capital assets added during both fiscal years were related to the potable and recycled 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.

Management's Discussion and Analysis

At June 30, 2012, the District had \$111.2 million in outstanding debt (net of \$3.3 million of maturities occurring in FY-2013), which consisted of the following:

General Obligation Bonds	\$	5.8
Certificates of Participation		55.9
Revenue Bonds		<u>49.5</u>
Total Long-Term Debt	\$	<u>111.2</u>

Additional information on the District's long-term debt can be found in Note 5 of the Notes to Financial Statements.

Fiscal Year 2012-2013 Budget

Economic Factors

Growth in the San Diego area has declined over the last 4 years, but is slowly improving. This modest shift is also being reflected in the demand for housing. Although San Diego received less than normal rainfall in Fiscal Year 2012, the District is expecting that San Diego's rainfall will return to its average pattern and volume in the coming years. Water sales volumes are expected to increase slightly as the economy is slowly improving, but will be partially offset by expanded efforts to promote water conservation. The coming years will continue to pose challenges for those in California's water community. It is uncertain if the challenges facing the Sacramento-San Joaquin Bay Delta, the source of 30% of Southern California's water supply, will be addressed. In addition, weather and rainfall always bring a level of uncertainty to the delivery of water to customers in the arid southwestern states. The combination of these factors add to the cost of providing a stable supply of water as water providers look to new and more costly sources of water.

The District currently provides water service to about 73% of its projected ultimate population, serving approximately 208,000 people. Long-term, this percentage should continue to increase as the District's service area continues to develop and grow. Ultimately, the District is projected to serve approximately 285,000 people, with an average daily demand of 46 million gallons per day (MGD). Currently, the District services the needs of this growing population by purchasing water from CWA, who in turn purchases its water from MWD and the Imperial Irrigation District (IID). Otay takes delivery of the water through several connections of large diameter pipelines owned and operated by CWA. The District currently receives treated water from CWA and the Helix Water District (HWD), by contract with CWA. In addition, the District has an emergency agreement with the City of San Diego to purchase water in the case of a shutdown of the main treated water source. The City of San Diego also has a long-term contract with the District to provide recycled water for landscape and irrigation usage. Through innovative agreements like this, benefits can be achieved by both parties by using excess capacity of another agency, and diversifying local supply, thereby increasing reliability.

Financial

The District is projected to deliver approximately 28,925 acre-feet of potable water to 48,860 potable customer accounts during Fiscal Year 2012-2013. Management feels that these projections are realistic after accounting for low growth, supply changes, and a focus on conservation. Current economic conditions throughout America have created an unprecedented uncertainty for business and economic projections in the current fiscal year. The nationwide housing mortgage crisis has leveled off, but continues to result in foreclosures within the District. Additionally, the crisis in the banking and financial industry has had a ripple effect resulting in continued levels of high unemployment. One of the subsequent results of these two broad events is the relocation of many homeowners and renters into new housing arrangements throughout San Diego County. Even with the various challenges, people's need for water remains an underlying constant. Staff continues working diligently on developing new water supplies as they work through the financial impacts of conservation and the modest economic turnaround.

Management is unaware of any other conditions that could have a significant 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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Statements of Net Assets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets:		
Cash and cash equivalents (Notes 1 and 2)	\$ 31,075,455	\$ 48,563,129
Restricted cash and cash equivalents (Notes 1 and 2)	4,057,726	5,239,430
Investments (Note 2)	37,069,853	28,691,752
Restricted investments (Notes 1 and 2)	16,124,042	20,622,679
Accounts receivable, net	10,575,970	9,235,138
Accrued interest receivable	106,375	180,113
Taxes and availability charges receivable, net	481,955	454,948
Restricted taxes and availability charges receivable, net	57,313	75,588
Inventories	789,769	835,321
Prepaid expenses and other current assets	1,226,703	1,189,206
	<u>101,565,161</u>	<u>115,087,304</u>
Total Current Assets		
Non-current Assets:		
Net OPEB asset (Note 8)	<u>8,321,902</u>	<u>7,416,346</u>
Deferred bond issuance costs (Note 4)	<u>1,532,857</u>	<u>1,618,069</u>
Capital Assets (Note 3):		
Land	13,703,463	13,636,663
Construction in progress	17,452,274	17,909,282
Capital assets, net of depreciation	<u>449,674,352</u>	<u>442,881,020</u>
Total capital assets, net of depreciaton	<u>480,830,089</u>	<u>474,426,965</u>
Total Non-current Assets	<u>490,684,848</u>	<u>483,461,380</u>
Total Assets	<u>592,250,009</u>	<u>598,548,684</u>

See accompanying independent auditors' report and notes to financial statements.

Statements of Net Assets

June 30, 2012 and 2011 - Continued

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Current Liabilities:		
Current maturities of long-term debt (Note 5)	3,320,000	3,146,010
Accounts payable	10,478,366	13,000,560
Accrued payroll liabilities	2,591,272	2,932,277
Other accrued liabilities	3,932,442	739,868
Customer deposits	1,863,992	2,105,187
Accrued interest	1,639,681	1,656,826
Liabilities payable from restricted assets:		
Restricted accrued interest	<u>81,354</u>	<u>86,405</u>
 Total Current Liabilities	 <u>23,907,107</u>	 <u>23,667,133</u>
Non-current Liabilities:		
Long-term debt (Note 5):		
General obligation bonds	5,819,027	6,298,577
Certificates of participation	55,886,449	57,865,531
Revenue bonds	49,521,421	50,395,822
Other non-current liabilities	<u>721,626</u>	<u>715,037</u>
 Total Non-current Liabilities	 <u>111,948,523</u>	 <u>115,274,967</u>
 Total Liabilities	 <u>135,855,630</u>	 <u>138,942,100</u>
 NET ASSETS		
Invested in capital assets, net of related debt	381,725,015	377,656,762
Restricted for debt service	4,715,904	4,915,555
Unrestricted	<u>69,953,460</u>	<u>77,034,267</u>
 Total Net Assets	 <u><u>\$ 456,394,379</u></u>	 <u><u>\$ 459,606,584</u></u>

See accompanying independent auditors' report and notes to financial statements.

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Water sales	\$ 63,830,272	\$ 58,293,184
Wastewater revenue	2,400,313	2,396,385
Connection and other fees	2,169,764	2,514,647
Total Operating Revenues	68,400,349	63,204,216
OPERATING EXPENSES		
Cost of water sales	46,106,403	42,029,819
Wastewater	2,547,929	2,592,823
Administrative and general	17,926,430	18,763,380
Depreciation	15,214,704	13,880,206
Total Operating Expenses	81,795,466	77,266,228
Operating Income (Loss)	(13,395,117)	(14,062,012)
NON-OPERATING REVENUES (EXPENSES)		
Investment income	436,596	854,440
Taxes and assessments	3,502,155	3,895,938
Availability charges	696,863	653,012
Gain (loss) on sale of capital assets	(278,540)	55,300
Miscellaneous revenues	4,788,711	3,304,963
Donations	(121,617)	(120,648)
Interest expense	(3,899,927)	(3,877,531)
Miscellaneous expenses	(1,767,226)	(312,649)
Total Non-operating Revenues (Expenses)	3,357,015	4,452,825
Income (Loss) Before Capital Contributions	(10,038,102)	(9,609,187)
Capital Contributions	6,825,897	7,866,190
Changes in Net Assets	(3,212,205)	(1,742,997)
Total Net Assets, Beginning	459,606,584	461,349,581
Total Net Assets, Ending	\$ 456,394,379	\$ 459,606,584

See accompanying independent auditors' report and notes to financial statements.

Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 64,648,558	\$ 60,372,625
Receipts from connections and other fees	2,169,764	2,514,647
Other receipts	3,566,651	2,119,390
Payments to suppliers	(46,620,831)	(47,028,888)
Payments to employees	(20,521,468)	(19,439,549)
Other payments	<u>(1,724,744)</u>	<u>(269,198)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,517,930</u>	<u>(1,730,973)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from taxes and assessments	3,493,423	3,918,750
Receipts from property rents and leases	<u>1,222,060</u>	<u>1,185,573</u>
Net Cash Provided (Used) by Non-capital and Related Financing Activities	<u>4,715,483</u>	<u>5,104,323</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital contributions	3,363,090	7,386,617
Proceeds from sale of capital assets	28,128	81,220
Proceeds from debt related taxes and assessments	696,863	653,012
Principal payments on long-term debt	(3,146,010)	(2,668,734)
Interest payments and fees	(5,199,488)	(4,696,309)
Acquisition and construction of capital assets	<u>(17,276,246)</u>	<u>(17,474,142)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(21,533,663)</u>	<u>(16,718,336)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	580,872	945,888
Proceeds from sale and maturities of investments	108,410,000	114,918,280
Purchase of investments	<u>(112,360,000)</u>	<u>(110,029,066)</u>
Net Cash Provided (Used) by Investing Activities	<u>(3,369,128)</u>	<u>5,835,102</u>
Net Increase (Decrease) in Cash and cash equivalents	(18,669,378)	(7,509,884)
Cash and cash equivalents, Beginning	<u>53,802,559</u>	<u>61,312,443</u>
Cash and cash equivalents, Ending	<u>\$ 35,133,181</u>	<u>\$ 53,802,559</u>

See accompanying independent auditors' report and notes to financial statements.

Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011 - Continued

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income (loss) to net cash flows provided (used) by operating activities:		
Operating income (loss)	\$ (13,395,117)	\$ (14,062,012)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	15,214,704	13,880,206
Miscellaneous revenues	3,566,651	2,119,390
Miscellaneous expenses	(1,724,744)	(269,198)
(Increase) decrease in accounts receivable	(1,340,832)	(275,771)
(Increase) decrease in inventory	45,552	118,686
(Increase) decrease in net OPEB asset	(905,556)	(632,961)
(Increase) decrease in prepaid expenses and other current assets	(37,497)	(562,785)
Increase (decrease) in accounts payable	(2,522,194)	(2,326,805)
Increase (decrease) in accrued payroll and related expenses	(341,005)	188,869
Increase (decrease) in other accrued liabilities	3,192,574	101,853
Increase (decrease) in customer deposits	(241,195)	(41,173)
Increase (decrease) in prepaid capacity fees	6,589	30,728
Net Cash Provided (Used) By Operating Activities	<u>\$ 1,517,930</u>	<u>\$ (1,730,973)</u>
Schedule of Cash and Cash Equivalents:		
Current assets:		
Cash and cash equivalents	\$ 31,075,455	\$ 48,563,129
Restricted cash and cash equivalents	4,057,726	5,239,430
Total Cash and Cash Equivalents	<u>\$ 35,133,181</u>	<u>\$ 53,802,559</u>
Supplemental Disclosures:		
Non-cash Investing and Financing Activities Consisted of the Following:		
Contributed Capital for Water and Sewer System	\$ 3,462,807	\$ 479,573
Change in Fair Value of Investments and Recognized Gains/Losses	(127,662)	(73,092)
Amortization Related to Long-Term Debt	164,101	164,101

See accompanying independent auditors' report and notes to financial statements.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

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See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

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

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or non-current) associated with these activities are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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.

Net assets of the District are classified into three components: (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. These classifications are defined as follows:

Invested in Capital Assets, Net of Related Debt

This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowing that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt.

Restricted Net Assets

This component of net assets consists of net assets with constrained use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets

This component of net assets consists of net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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 \$57,465 and \$58,948 at June 30, 2012 and 2011, respectively.

Additionally, capacity fee contributions received which are related to specific operating expenses are offset against those 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 practice to use restricted resources first, then unrestricted resources as they are needed.

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

The District's investments are stated at fair value, except for short-term investments, which are reported at cost, which approximates 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 District will also capitalize individual purchases under the capitalization threshold if they are part of a new capital program. 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, overhead, 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 for fiscal year ending June 30, 2012 of \$1,185,443 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.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

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

F) Capital Assets - *Continued*

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

Water System	15-70 Years
Field Equipment	2-50 Years
Buildings	30-50 Years
Communication Equipment	2-10 Years
Transportation Equipment	2-4 Years
Office Equipment	2-10 Years
Recycled Water System	50-75 Years
Sewer System	25-50 Years

G) Compensated Absences

It is the District's policy to record the cost of paid time off (vacation and sick leave) as it is earned. Paid time off is payable to employees at the time it is taken or upon termination of employment. As of June 30, 2012 and 2011, total accrued paid time off was \$1,991,841 and \$2,162,352, respectively.

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 collectability of existing specific accounts. The allowance for doubtful accounts were \$14,461 and \$148,047 for 2012 and 2011, respectively.

J) Use of Estimates

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

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 January 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.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

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.

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

Statement of Net Assets:		
Current Assets	2012	2011
Cash and Cash Equivalents	\$ 31,075,455	\$ 48,563,129
Restricted Cash and Cash Equivalents	4,057,726	5,239,430
Investments	37,069,853	28,691,752
Restricted Investments	16,124,042	20,622,679
Total Cash and Investments	<u>\$ 88,327,076</u>	<u>\$ 103,116,990</u>

Cash and Investments consist of the following:

	2012	2011
Cash on Hand	\$ 2,950	\$ 2,950
Deposits with Financial Institutions	1,519,979	981,696
Investments	86,804,147	102,132,344
Total Cash and Investments	<u>\$ 88,327,076</u>	<u>\$ 103,116,990</u>

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

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's Investment Policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's Investment Policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio⁽¹⁾</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Entities	5 years	None	None
Certificates of Deposit	5 years	15%	None
Corporate 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.

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

2) CASH AND INVESTMENTS - Continued

Investments Authorized by Debt Agreements

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

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations are provided by the following tables that show the distribution of the District's investments by maturity as of June 30, 2012 and 2011.

June 30, 2012

Investment Type		Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Government Sponsored Entities	\$ 53,100,166	\$ 5,744,244	\$24,995,670	\$22,360,252	\$ -
Local Agency Investment Fund (LAIF)	11,614,981	11,614,981	-	-	-
San Diego County Pool	22,089,000	22,089,000	-	-	-
Total	\$ 86,804,147	\$39,448,225	\$24,995,670	\$22,360,252	\$ -

June 30, 2011

Investment Type		Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Government Sponsored Entities	\$ 49,263,245	\$ -	\$ 21,821,835	\$ 27,441,411	\$ -
Local Agency Investment Fund (LAIF)	35,876,620	35,876,620	-	-	-
Corporate Medium-Term Notes	-	-	-	-	-
San Diego County Pool	16,992,479	16,992,479	-	-	-
Total	\$ 102,132,344	\$ 52,869,099	\$ 21,821,835	\$ 27,441,411	\$ -

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

2) CASH AND INVESTMENTS – Continued

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's Investment Policy, or debt agreements, and the Moody's ratings as of June 30, 2012 and 2011 for each investment type.

June 30, 2012

Investment Type		Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Not Rated
U.S. Government Sponsored Entities	\$ 53,100,166	N/A	\$ 53,100,166	\$ -	\$ -
Local Agency Investment Fund (LAIF)	11,614,981	N/A	-	-	11,614,981
San Diego County Pool	22,089,000	N/A	-	-	22,089,000
Total	\$ 86,804,147		\$ 53,100,166	\$ -	\$ 33,703,981

June 30, 2011

Investment Type		Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Not Rated
U.S. Government Sponsored Entities	\$ 49,263,245	N/A	\$ 49,263,246	\$ -	\$ -
Local Agency Investment Fund (LAIF)	35,876,620	N/A	-	-	35,876,620
San Diego County Pool	16,992,479	N/A	-	-	16,992,479
Total	\$ 102,132,344		\$ 49,263,246	\$ -	\$ 52,869,099

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

2) CASH AND INVESTMENTS - Continued

Concentration of Credit Risk

The Investment Policy of the District contains various limitations on the amounts that can be invested in any one type or group of investments and in any 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 as of June 30, 2012 and 2011 are as follows:

<u>June 30, 2012</u>		
<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	U.S. Government Sponsored Entities	\$ 17,991,270
Federal Home Loan Mortgage Corp	U.S. Government Sponsored Entities	15,753,834
Federal National Mortgage Association	U.S. Government Sponsored Entities	14,993,400
Federal Farm Credit Banks	U.S. Government Sponsored Entities	4,361,662

<u>June 30, 2011</u>		
<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	U.S. Government Sponsored Entities	\$ 17,791,131
Federal Home Loan Mortgage Corp	U.S. Government Sponsored Entities	25,827,735
Federal National Mortgage Association	U.S. Government Sponsored Entities	5,644,380

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, 2012, \$1,720,135 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts. As of June 30, 2011, \$1,308,661 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

2) CASH AND INVESTMENTS - Continued

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.

San Diego County Pooled Fund

The San Diego County Pooled Investment Fund (SDCPIF) is a pooled investment fund program governed by the County of San Diego Board of Supervisors, and administered by the County of San Diego Treasurer and Tax Collector. Investments in SDCPIF are highly liquid as deposits and withdrawals can be made at anytime without penalty.

The County of San Diego's bank deposits are either federally insured or collateralized in accordance with the California Government Code. Pool detail is included in the County of San Diego Comprehensive Annual Financial Report (CAFR). Copies of the CAFR may be obtained from the County of San Diego Auditor-Controller's Office – 5530 Overland Avenue, Suite 330 – San Diego, CA 92123.

Collateral for Deposits

All cash is 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 District 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 \$250,000 by the FDIC.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

3) CAPITAL ASSETS

The following is a summary of changes in Capital Assets for the year ended June 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, Not Depreciated				
Land	\$ 13,636,663	\$ 66,800	\$ -	\$ 13,703,463
Construction in Progress	17,909,282	19,086,698	(19,543,706)	17,452,274
Total Capital Assets Not Depreciated	31,545,945	19,153,498	(19,543,706)	31,155,737
Capital Assets, Being Depreciated				
Infrastructure	577,926,518	20,908,862	(940,451)	597,894,929
Field Equipment	9,847,809	149,661	(1,395,410)	8,602,060
Buildings	18,451,132	198,077	-	18,649,209
Transportation Equipment	3,177,687	221,872	(178,310)	3,221,249
Communication Equipment	2,359,043	155,108	-	2,514,151
Office Equipment	17,332,966	681,123	(812,669)	17,201,420
Total Capital Assets Being Depreciated	629,095,155	22,314,703	(3,326,840)	648,083,018
Less Accumulated Depreciation:				
Infrastructure	157,565,903	12,330,306	(637,807)	169,258,402
Field Equipment	8,619,183	149,708	(1,395,410)	7,373,481
Buildings	6,911,291	436,529	-	7,347,820
Transportation Equipment	2,250,422	234,188	(178,310)	2,306,300
Communication Equipment	644,017	391,829	-	1,035,846
Office Equipment	10,223,319	1,672,144	(808,646)	11,086,817
Total Accumulated Depreciation	186,214,135	15,214,704	(3,020,173)	198,408,666
Total Capital Assets Being Depreciated, Net	442,881,020	7,099,999	(306,667)	449,674,352
Total Capital Assets, Net	\$ 474,426,965	\$ 26,253,497	\$ (19,850,373)	\$ 480,830,089

Depreciation expense for the years ended June 30, 2012 and 2011 was \$15,214,704 and \$13,880,206, respectively.

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

3) CAPITAL ASSETS (Continued)

The following is a summary of changes in Capital Assets for the year ended June 30, 2011:

	Beginning Balance (As Restated)	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated				
Land	\$ 13,620,963	\$ 15,700	\$ -	\$ 13,636,663
Construction in Progress	35,179,104	18,141,296	(35,411,118)	17,909,282
Total Capital Assets Not Depreciated	<u>48,800,067</u>	<u>18,156,996</u>	<u>(35,411,118)</u>	<u>31,545,945</u>
Capital Assets, Being Depreciated				
Infrastructure	544,533,985	33,440,219	(47,686)	577,926,518
Field Equipment	9,529,558	489,019	(170,768)	9,847,809
Buildings	18,451,132	-	-	18,451,132
Transportation Equipment	3,278,692	347,077	(448,082)	3,177,687
Communication Equipment	1,335,820	1,023,223	-	2,359,043
Office Equipment	18,430,388	1,123,775	(2,221,197)	17,332,966
Total Capital Assets Being Depreciated	<u>595,559,575</u>	<u>36,423,313</u>	<u>(2,887,733)</u>	<u>629,095,155</u>
Less Accumulated Depreciation:				
Infrastructure	146,106,000	11,507,589	(47,686)	157,565,903
Field Equipment	8,685,579	104,372	(170,768)	8,619,183
Buildings	6,475,141	436,150	-	6,911,291
Transportation Equipment	2,477,854	203,715	(431,147)	2,250,422
Communication Equipment	468,548	175,469	-	644,017
Office Equipment	10,982,620	1,452,911	(2,212,212)	10,223,319
Total Accumulated Depreciated	<u>175,195,742</u>	<u>13,880,206</u>	<u>(2,861,813)</u>	<u>186,214,135</u>
Total Capital Assets Being Depreciated, Net	<u>420,363,833</u>	<u>22,543,107</u>	<u>(25,920)</u>	<u>442,881,020</u>
Total Capital Assets, Net	<u>\$ 469,163,900</u>	<u>\$ 40,700,103</u>	<u>\$ (35,437,038)</u>	<u>\$ 474,426,965</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$13,880,206 and \$13,297,497, respectively.

4) OTHER NON-CURRENT ASSETS

Deferred bond issue costs totaled \$1,532,857 and \$1,618,069, net of accumulated amortization of \$466,081 and \$380,418 as of June 30, 2012 and 2011, respectively. The costs are amortized on the straight-line method based on the estimated term of the related bond debt. Amortization expense of \$85,212 and \$85,212 for the years ended June 30, 2012 and 2011 is included in miscellaneous non-operating expenses.

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

5) LONG-TERM DEBT

Long-term liabilities for the year ended June 30, 2012 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds:					
Improvement District No. 27 – 2009	\$ 7,260,000	-	\$ 505,000	\$ 6,755,000	\$ 520,000
Unauthorized Bond Premium	182,626	-	16,355	166,271	-
Deferred Amount on Refunding	(639,049)	-	(56,805)	(582,244)	-
Net General Obligation Bonds	6,803,577	-	464,550	6,339,027	520,000
Certificates of Participation:					
1996 Certificates of Participation	11,300,000	-	400,000	10,900,000	500,000
2004 Certificates of Participation	9,245,000	-	565,000	8,680,000	580,000
2007 Certificates of Participation	39,550,000	-	885,000	38,665,000	920,000
1996 COPS Unamortized Discount	(11,923)	-	(745)	(11,178)	-
2007 COPS Unamortized Discount	(232,131)	-	(9,044)	(223,087)	-
2004 COPS Unamortized Premium	14,170	-	1,165	13,005	-
2004 COPS Deferred Amount on Refunding	(149,585)	-	(12,294)	(137,291)	-
Net Certificates of Participation	59,715,531	-	1,829,082	57,886,449	2,000,000
Revenue Bonds:					
2010 Water Revenue Bonds Series A	13,840,000	-	785,000	13,055,000	800,000
2010 Water Revenue Bonds Series B	36,355,000	-	-	36,355,000	-
2010 Series A Unamortized Premium	985,822	-	74,401	911,421	-
Net Revenue Bonds	51,180,822	-	859,401	50,321,421	800,000
Notes Payable:					
State Water Resources Control Board	6,010	-	6,010	-	-
Total Long-Term Liabilities	\$ 117,705,940	\$ -	\$3,159,043	\$114,546,897	\$ 3,320,000

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

5) LONG-TERM DEBT – Continued

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. In November 2009, The District issued \$7,780,000 of General Obligation Refunding Bonds to refund the 1998 issue. The proceeds from the bond issue were \$7,989,884, which included an original issue premium of \$209,884. An amount of \$7,824,647, which consisted of unpaid principal and accrued interest, was deposited into an escrow fund. Pursuant to an optional redemption clause in the 1998 bonds, the District was able to redeem the 1998 bonds, without premium at any time after September 1, 2009. On December 15, 2009 the 1998 bonds were refunded.

The savings between the cash flow required to service the old debt and the cash flow required to service the new debt is \$1,099,110 and represents an economic gain on refunding of \$640,925.

These bonds are general obligations of Improvement District No. 27 (ID 27) of the District. The Board of Directors has the power and is obligated to levy annual ad valorem taxes without limitation, as to rate or amount for payment of the bonds and the interest upon all property which is within ID 27 and subject to taxation. The General Obligation Bonds are payable from District-wide tax revenues. The Board may utilize other sources for servicing the bond debt and interest.

The refunding of the 1998 bonds resulted in a deferred amount of \$728,989 which is being amortized over the remaining life of the refunded debt. Amortization for the year ended June 30, 2012 was \$56,805 and is included in miscellaneous non-operating expenses. As of June 30, 2012, the unamortized deferred amount of refunding is \$582,244.

The 2009 General Obligation Bonds have interest rates from 3.00% to 4.00% with maturities through Fiscal Year 2023.

Future debt service requirements for the bonds are as follows:

For the Year Ended June 30,	Principal	Interest	Total
2013	\$ 520,000	\$ 236,262	\$ 756,262
2014	535,000	220,437	755,437
2015	550,000	204,162	754,162
2016	570,000	187,362	757,362
2017	585,000	169,306	754,306
2018-2022	3,275,000	481,300	3,756,300
2023	720,000	14,403	734,403
	<u>\$ 6,755,000</u>	<u>\$ 1,513,232</u>	<u>\$ 8,268,232</u>

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

5) LONG-TERM DEBT - Continued

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 variable interest rate is tied to the 30-day LIBOR index and the Securities Industry and Financial Markets Association (SIFMA) index. An irrevocable letter of credit facility is necessary to market the District’s variable rate debt. This facility is with Union Bank and covers the outstanding principal and interest. The facility expires on June 29, 2014. The interest rate at June 30, 2012 was 0.15%. The installment payments are to be paid annually at \$350,000 to \$900,000 from September 1, 1996 through September 1, 2026.

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 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 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 March 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 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 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 Ended June 30,	1996 COPS		2004 COPS		2007 COPS	
	Principal	Interest*	Principal	Interest	Principal	Interest
2013	\$ 500,000	\$ 15,725	\$ 580,000	\$ 349,566	\$ 920,000	\$ 1,589,020
2014	500,000	14,975	600,000	328,906	955,000	1,553,864
2015	500,000	14,225	625,000	306,388	995,000	1,517,301
2016	600,000	13,350	650,000	281,994	1,035,000	1,479,239
2017	600,000	12,450	675,000	255,819	1,075,000	1,439,408
2018-2022	3,500,000	47,225	3,795,000	828,394	6,020,000	6,529,600
2023-2027	4,700,000	16,325	1,755,000	81,441	7,360,000	5,181,071
2028-2032	-	-	-	-	9,070,000	3,453,857
2033-2037	-	-	-	-	11,235,000	1,271,265
	<u>\$ 10,900,000</u>	<u>\$ 134,275</u>	<u>\$ 8,680,000</u>	<u>\$ 2,432,508</u>	<u>\$ 38,665,000</u>	<u>\$ 24,014,625</u>

* Variable Rate - Interest reflected at June 30, 2012 at a rate of 0.15%.

The three COP debt issues contain various covenants and restrictions, principally that the District fix, prescribe, revise and collect rates, fees and charges for the Water System which will be at least sufficient to yield, during each fiscal year, taxes and net revenues equal to one hundred twenty-five percent (125%) of the debt service for such fiscal year. The District was in compliance with these rate covenants for the fiscal year ended June 30, 2012.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

5) LONG-TERM DEBT - Continued

Water Revenue Bonds

In April 2010, Water Revenue Bonds with a face value of \$50,195,000 were sold by the Otay Water District Financing Authority to provide funds for the construction of water storage and transmission facilities. The bond issue consisted of two series; Water Revenue Bonds, Series 2010A (Non-AMT Tax Exempt) with a face value of \$13,840,000 plus a \$1,078,824 original issue premium, and Water Revenue Bonds Series 2010B (Taxable Build America Bonds) with a face value of \$36,255,000. The Series 2010A bonds are due in annual installments of \$785,000 to \$1,295,000 from September 1, 2012 through September 1, 2025; bearing interest at 2% to 5.25%. The Series 2010B bonds are due in annual installments of \$1,365,000 to \$3,505,000 from September 1, 2026 through September 1, 2040; bearing interest at 6.377% to 6.577%. Interest on both Series is payable on September 1, 2010 and semiannually thereafter on March 1st and September 1st of each year until maturity or earlier redemption. The installment payments are to be made from Taxes and Net Revenues of the Water System as described in the installment purchase agreement, on parity with the payments required to be made by the District for the 1996, 2004 and 2007 Certificates of Participation described above.

The proceeds of the bonds will be used to fund the project described above as well as to fund reserve funds of \$1,030,688 (Series 2010A) and \$2,707,418 (Series 2010B). \$542,666 was used to fund various costs of issuance.

The original issue premium is being amortized over the 14 year life of the Series 2010A bonds. Amortization for the year ending June 30, 2012 was \$74,402 and is included in interest expense. The unamortized premium at June 30, 2012 is \$911,421.

The 2011 Water Revenue Bonds contains various covenants and restrictions, principally that the District fix, prescribe, revise and collect rates, fees and charges for the Water System which will be at least sufficient to yield, during each fiscal year, taxes and net revenues equal to one hundred twenty-five percent (125%) of the debt service for such fiscal year. The District was in compliance with these rate covenants for the fiscal year ended June 30, 2012.

The total amount outstanding at June 30, 2012 and aggregate maturities of the revenue bonds for the fiscal years subsequent to June 30, 2012, are as follows:

For the Year Ended June 30,	2010 Water Revenue Bond Series A		2010 Water Revenue Bond Series B	
	Principal	Interest	Principal	Interest
2013	\$ 800,000	\$ 553,838	\$ -	\$ 2,371,868
2014	820,000	533,538	-	2,371,868
2015	845,000	508,563	-	2,371,868
2016	870,000	478,488	-	2,371,868
2017	900,000	443,088	-	2,371,868
2018-2022	5,115,000	1,584,988	-	11,859,342
2023-2027	3,705,000	291,969	2,815,000	11,682,539
2028-2032	-	-	8,760,000	9,631,794
2033-2037	-	-	12,005,000	6,275,280
2038-2042	-	-	12,775,000	1,747,344
	<u>\$ 13,055,000</u>	<u>\$ 4,394,470</u>	<u>\$ 36,355,000</u>	<u>\$ 53,055,639</u>

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

5) LONG-TERM DEBT - Continued

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 1992 through 2012. The note was paid off during the year.

6) NET ASSETS

Designated Net Assets

In addition to the restricted net assets, a portion of the unrestricted net assets have been designated by the Board of Directors for the following purposes as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Designated Betterment	\$ -	\$ 13,221,595
Expansion Reserve	17,943,825	13,216,223
Replacement Reserve	15,911,850	30,156,082
Designated New Supply Fund	1,593,571	-
Employee Benefits Reserve	<u>1,660,369</u>	<u>4,526,516</u>
Total	<u>\$ 37,109,615</u>	<u>\$ 61,120,416</u>

7) 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.

Funding Policy

Active members in the Plan are required to contribute 8% of their annual covered salary. By agreement between the employee union and the District, the represented employees paid 5.25% of covered salaries beginning August 15, 2011. Also by agreement, the unrepresented employees began paying 4.5% of covered salaries as of July 15, 2011. Prior to these agreements all employees paid 1% of covered salaries. In these same agreements, all employees, after June 30, 2012 will pay an additional 3.5% of covered salaries. 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, 2012 was 23.428%. 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.

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

7) DEFINED BENEFIT PENSION PLAN - Continued

Annual Pension Costs

For the fiscal year ended June 30, 2012, the District's annual pension cost and actual contribution was \$2,951,409. The required contribution for the fiscal year ended June 30, 2012 was determined as part of the June 30, 2009 actuarial valuation.

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

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	21-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	3.55% 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 6% 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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	\$ 2,951,409	100%	\$ -
6/30/11	\$ 2,427,744	100%	\$ -
6/30/10	\$ 2,240,538	100%	\$ -

Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 70.9% funded. The actuarial accrued liability (AAL) for benefits was \$81,306,934, and the actuarial value of assets was \$57,613,987, resulting in an unfunded actuarial accrued liability (UAAL) of \$23,692,947. The covered payroll (annual payroll of active employees covered by the plan) was \$12,140,989, and the ratio of the UAAL to the covered payroll was 195.1%.

The schedule of funding progress, presented as *required supplementary information* following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over the time relative to the actuarial accrued liability for benefits.

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

8) OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District's defined benefit post employment healthcare plan, (DPHP), provides medical benefits to eligible retired District employees and beneficiaries. DPHP is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. 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.

Prior to the plan agreements signed in 2011 the eligibility in the plan was broken into 3 tiers, employees hired before January 1, 1981, employees hired between January 1, 1981 and July 1, 1993 and employees hired on or after July 1, 1993. Board Members elected before January 1, 1995 are also eligible for the plan. Eligibility also include age and years of service requirements which vary by tier. Benefits include 100% medical and dental premiums for life for the retiree for Tier I, II or III employees, and up to 100% spouse premium for life and dependent premium up to age 19 depending on the tier. The plan also include survivor benefits to Medicare.

Subsequent to the agreements in 2011 the represented employees are eligible for the plan after 20 years of consecutive service while unrepresented employees are eligible after 15 years. Survivor benefits are covered beyond Medicare.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. DPHP members receiving benefits contribute based on their selected plan options of EPO, HMO or Gold and if they are located outside the State of California. Contributions by plan members range from \$0 to \$146 per month for coverage to age 65, and from \$0 to \$147 per month, respectively, thereafter.

Annual OPEB Cost and Net OPEB Obligation/Asset

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 10.5% of the annual covered payroll.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation/asset:

	<u>2012</u>	<u>2011</u>
Annual Required Contribution (ARC)	\$ 1,304,000	\$ 289,000
Interest on net OPEB asset	(537,685)	(525,712)
Adjustment to annual Required Contribution (ARC)	473,000	646,000
Annual OPEB Cost (expense)	1,239,315	409,288
Contributions made	2,144,871	1,042,249
Increase in net OPEB asset	(905,556)	(632,961)
Net OPEB asset – beginning of year	(7,416,346)	(6,783,385)
Net OPEB asset – end of year	<u>\$ (8,321,902)</u>	<u>\$ (7,416,346)</u>

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

8) OTHER POST EMPLOYMENT BENEFITS - Continued

Annual OPEB Cost and Net OPEB Obligation/Asset - Continued

For 2012, in addition to the ARC, the District contributed cash benefit payments outside the trust (healthcare premium payments for retirees to Special District Risk Management Authority (SDRMA)) in the amount of \$749,871, which is included in the \$2,144,871 of contributions shown above. For 2011 this amount was \$654,250, which is included in the \$1,042,249 of contributions shown above.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation/asset for the fiscal years 2012, 2011 and 2010 were as follows:

<u>THREE-YEAR TREND INFORMATION FOR CERBT</u>			
<u>Fiscal Year</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
6/30/2012	\$ 1,239,315	173%	\$ (8,321,902)
6/30/2011	\$ 409,288	255%	\$ (7,416,346)
6/30/2010	\$ 455,122	227%	\$ (6,783,385)

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2011, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 18,289,000
Actuarial Value of Plan Assets	\$ 7,893,000
Unfunded Actuarial Accrued Liability (UAAL)	\$ 10,396,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)	43.16%
Covered Payroll (Active Plan Members)	\$ 12,429,000
UAAL as a Percentage of Covered Payroll	83.64%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

8) OTHER POST EMPLOYMENT BENEFITS - Continued

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

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

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	26-Year fixed (closed) period as of the Valuation Date
Asset Valuation Method	15-year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.25% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	3.00%
Individual Salary Growth	CalPERS 1997-2007 Experience Study
Healthcare Cost Trend Rate	Medical: 10% per annum graded down in approximately one-half percent increments to an ultimate rate of 5%. Dental: 4% per annum.

9) 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, 2012 and 2011, the District contributed \$121,617 and \$120,648, respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

A summary of the Authority's June 30, 2011 audited financial statement is as follows (latest report available):

Assets	\$ 1,815,887
Liabilities	85
Net Assets	<u>\$ 1,815,802</u>
Revenues, Gains and Other Support	\$ 370,012
Expenses	(597,808)
Transfer of Assets	(367,946)
Changes in Net Assets	<u>\$ (595,742)</u>

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

10) COMMITMENTS AND CONTINGENCIES

Construction Commitments

The District had committed to capital projects under construction with an estimated cost to complete of \$3,151,775 at June 30, 2012.

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 a 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, 2011, 1,751 EDUs had been relinquished and refunded, 14,663 EDUs had been connected, and 1,453 EDUs have neither been relinquished nor connected. At June 30, 2012, 1,751 EDUs had been relinquished and refunded, 15,026 EDUs had been connected, and 1,090 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, 2012, none of the outstanding developer agreements had been accepted, however, it is anticipated that the District will be liable for an amount not to exceed \$56,000 at the point of acceptance. Accordingly, the District has accrued a liability as of year end.

11) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. Beginning in July 2003, the District began participation in an insurance pool through 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 pays an annual premium for commercial insurance covering general liability, excess liability, property, automobile, public employee dishonesty, and various other claims. Accordingly, the District retains no risk of loss. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "I" Street, Suite 300, Sacramento, CA 95814.

General and Auto Liability, Public Officials' and Employees' Errors and Omissions and Employment Practices Liability: Total risk financing limits of \$10 Million combined single limit at \$10 Million per occurrence, subject to the following deductibles:

\$500 per occurrence for third party general liability property damage;

\$1,000 per occurrence for third party auto liability property damage;

50% co-insurance of cost expended by SDRMA, in excess of \$10,000 up to \$50,000, per occurrence, for employment related claims. However, 100% of the obligation will be waived if certain criteria are met, as provided in the Memorandum of Coverage.

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

11) RISK MANAGEMENT (Continued)

Employee Dishonesty Coverage: Total of \$400,000 per loss includes Public Employee Dishonesty, Forgery or Alteration and Theft, Disappearance and Destruction coverage's effective July 1, 2011.

Property Loss: Replacement cost, for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of \$1 Billion per occurrence, subject to a \$2,000 deductible per occurrence, effective July 1, 2011.

Boiler and Machinery: Replacement cost up to \$100 Million per occurrence, subject to a \$1,000 deductible, effective July 1, 2011.

Public Officials Personal Liability: \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage's, deductible of \$500 per claim, effective July 1, 2011.

Comprehensive and Collision: on selected vehicles, with deductibles of \$250/\$500 or \$500/\$1,000, as elected; ACV limits; fully self-funded by SDRMA; Policy No. LCA - SDRMA - 201111, effective July 1, 2011.

Workers' Compensation Coverage and Employer's Liability: Statutory limits per occurrence for Workers' Compensation and \$5.0 Million for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, effective July 1, 2011.

Health Insurance

Beginning in January 2008, the District began providing health insurance through SDRMA covering all of its employees, retirees, and other dependents. SDRMA is a self-funded, pooled medical program, administered in conjunction with the California State Association of Counties (CSAC).

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.

12) INTEREST EXPENSE

Interest expense for the years ended June 30, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Amount Expensed	\$ 3,899,927	\$ 3,877,531
Amount Capitalized as a Cost of Construction Projects	<u>1,185,443</u>	<u>1,215,476</u>
Total Interest	<u>\$ 5,085,370</u>	<u>\$ 5,093,007</u>

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

13) SEGMENT INFORMATION

During the June 30, 2011 fiscal year, the District issued Revenue Bonds to finance certain capital improvements. While water and wastewater services are accounted for jointly in these financial statements, the investors in the Revenue Bonds rely solely on the revenues of the water services for repayment.

Summary financial information for the water services is presented for June 30, 2012.

Condensed Statement of Net Assets June 30, 2012

	<u>Water Services</u>
ASSETS	
Current Assets	\$ 102,545,752
Capital Assets	464,947,634
Other Assets	<u>9,854,759</u>
Total Assets	<u>577,348,145</u>
LIABILITIES	
Current Liabilities	22,900,886
Long-Term Liabilities	<u>111,941,023</u>
Total Liabilities	<u>134,841,909</u>
NET ASSETS	
Invested in capital assets, net of related debt	365,842,560
Restricted for debt service	4,715,904
Unrestricted	<u>71,947,772</u>
Total Net Assets	<u>\$ 442,506,236</u>

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

13) SEGMENT INFORMATION - Continued

Condensed Statement of Revenues, Expenses and Changes in Net Assets For the Year Ended June 30, 2012

	Water Services
Operating Revenues	
Water sales	\$ 63,803,099
Connection and other fees	1,993,555
	65,796,654
Operating Expenses	
Cost of Water Sales	46,106,403
Administrative and General	17,901,008
Depreciation	14,367,787
	78,375,198
Total Operating Expenses	78,375,198
Operating Income (Loss)	(12,578,544)
Non-operating Revenues (Expenses)	
Investment income	416,045
Taxes and assessments	3,487,954
Availability charges	646,278
Gain (loss) on sale of capital assets	(278,540)
Miscellaneous revenues	4,788,711
Donations	(121,617)
Interest expense	(3,899,927)
Miscellaneous expenses	(1,755,782)
	3,283,122
Total Non-operating Revenues (Expenses)	3,283,122
Income (Loss) Before Capital Contributions	(9,295,422)
Capital Contributions	6,942,986
	(2,352,436)
Changes in Net Assets	(2,352,436)
Total Net Assets, Beginning	444,858,672
Total Net Assets, Ending	\$ 442,506,236

See independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

13) SEGMENT INFORMATION - Continued

Condensed Statement of Cash Flows For the Year Ended June 30, 2012

	<u>Water Services</u>
Net Cash Provided by Operating Activities	\$ 1,295,193
Net Cash Provided by Non-capital and Related Financing Activities	3,944,795
Net Cash Provided (Used) by Capital and Related Financing Activities	(20,519,687)
Net Cash Used by Investing Activities	<u>(3,389,679)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(18,669,378)
Cash and cash equivalents, Beginning	<u>53,802,559</u>
Cash and cash equivalents, Ending	<u><u>\$ 35,133,181</u></u>

See independent auditors' report.

Required Supplementary Information





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Required Supplementary Information

Years Ended June 30, 2012 and 2011

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]
6/30/10 Miscellaneous	\$ 57,613,987	\$ 81,306,934	\$ 23,692,947	70.9%	\$ 12,140,989	195.1%
6/30/09 Miscellaneous	\$ 53,736,612	\$ 75,300,790	\$ 21,564,178	71.4%	\$ 11,880,481	181.5%
6/30/08 Miscellaneous	\$ 49,712,016	\$ 65,542,736	\$ 15,830,720	75.8%	\$ 11,174,528	141.7%

Schedule of Funding Progress for DPHP

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]
6/30/11 Miscellaneous	\$ 7,893,000	\$ 18,289,000	\$ 10,396,000	43.16%	\$ 12,429,000	83.64%
6/30/09 Miscellaneous	\$ 6,273,000	\$ 10,070,000	\$ 3,797,000	62.29%	\$ 11,878,000	31.97%
6/30/08 Miscellaneous	\$ 5,649,000	\$ 11,581,000	\$ 5,932,000	48.78%	\$ 11,307,000	52.50%

See independent auditors' report.



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Statistical Schedules

The Statistical Schedule is part of understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

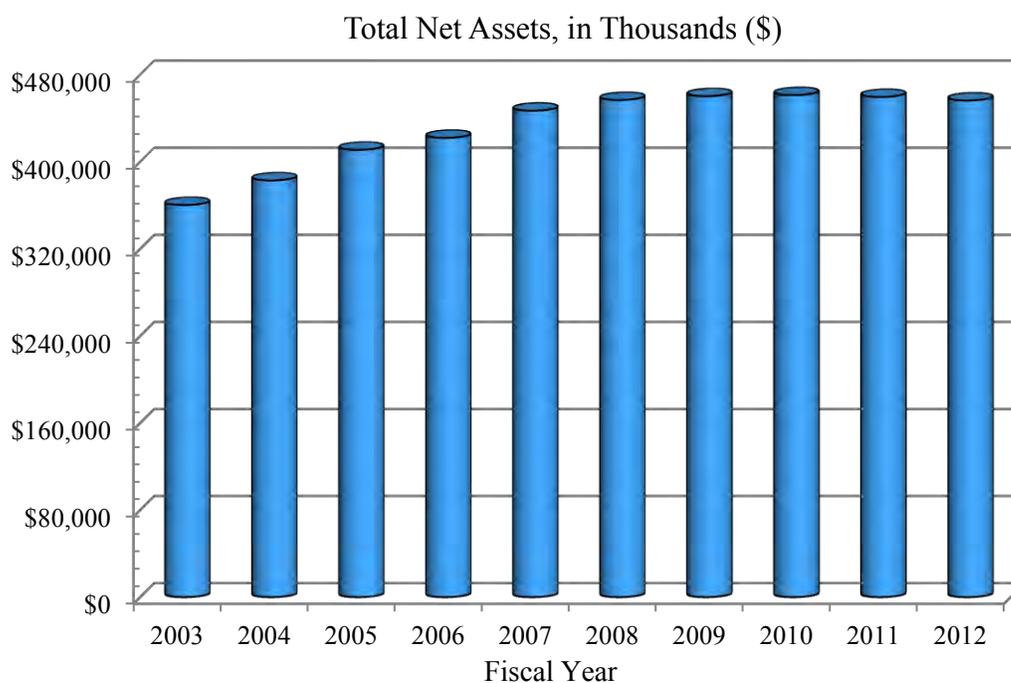
<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	56
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the District's ability to generate its potable and recycled water, and sewer sales as well as property and sales taxes.	62
Debt 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.	70
Demographic and Economic Information 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.	74
Operating Information 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.	76

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

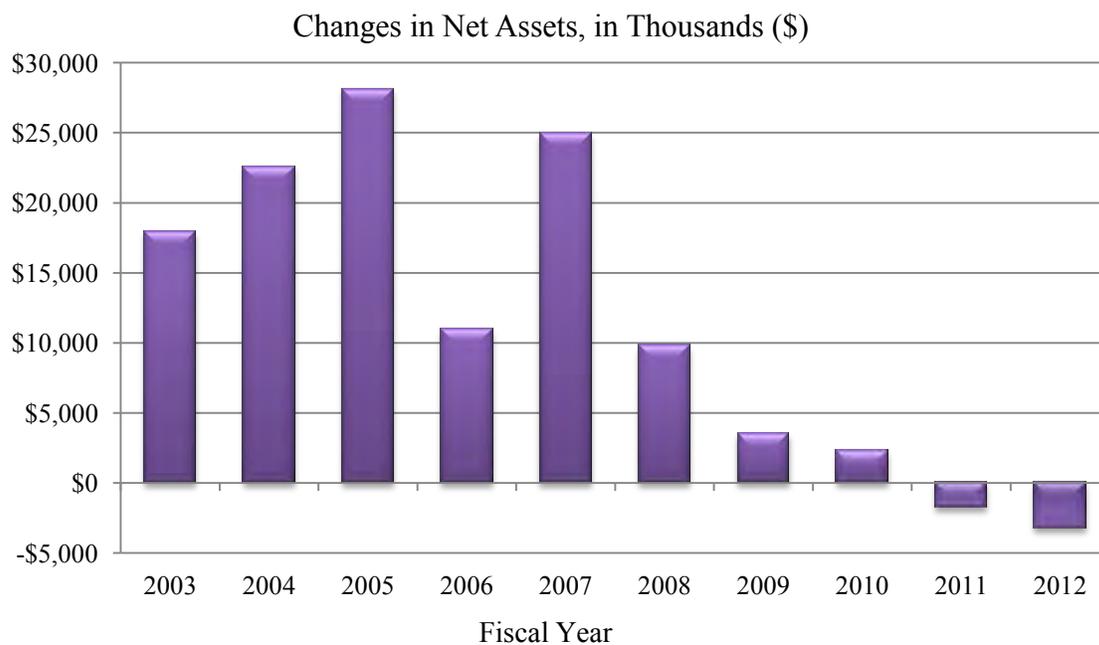
Fiscal Year	Invested in			Total Net Assets
	Capital Assets Net of Related Debt	Restricted	Unrestricted	
2012	\$ 381,725,015	\$ 4,715,904	\$ 69,953,460	\$ 456,394,379
2011	377,656,762	4,915,555	77,034,267	459,606,584
2010	375,953,042	5,192,111	80,204,428	461,349,581
2009	382,410,491	1,797,512	76,136,868	460,344,871
2008	372,696,591	9,411,114	74,719,712	456,827,417
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



Source: Otay Water District

Changes in Net Assets - Last Ten Fiscal Years

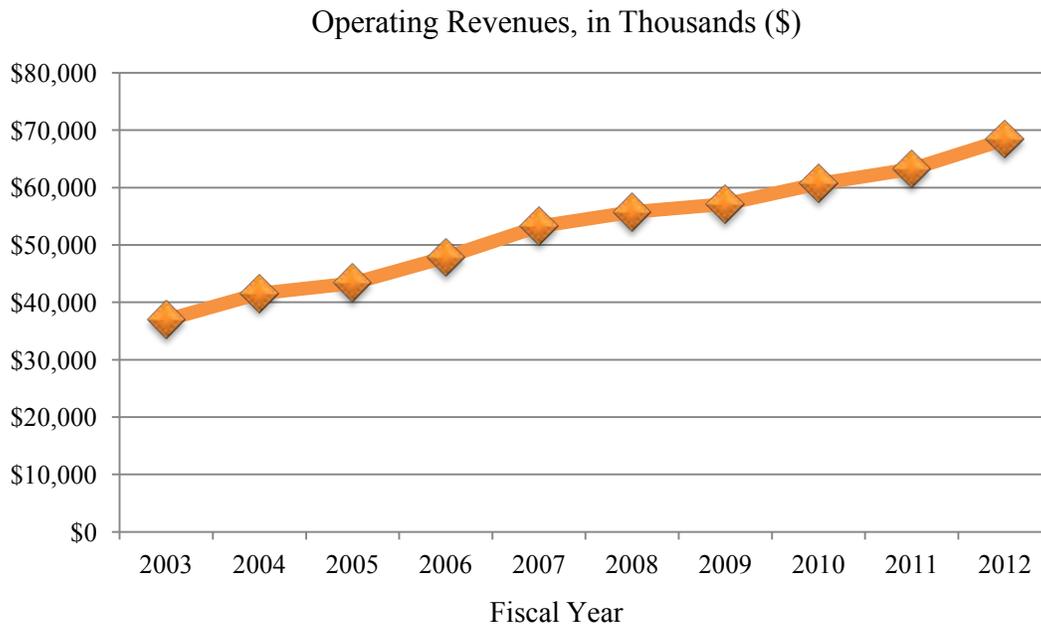
Fiscal Year	Operating Revenues	Operating Expenses	Operating Income	Total Non-Operating Revenues/ (Expenses)	Income (Loss) Before Capital Contributions	Capital Contributions	Change in Net Assets
2012	\$68,400,349	\$81,795,466	\$ (13,395,117)	\$ 3,357,015	\$ (10,038,102)	\$ 6,825,897	\$ (3,212,205)
2011	63,204,216	77,266,228	(14,062,012)	4,452,825	(9,609,187)	7,866,190	(1,742,997)
2010	60,686,681	73,126,342	(12,439,661)	5,937,575	(6,502,086)	8,839,892	2,337,806
2009	57,103,311	71,507,161	(14,403,850)	10,932,096	(3,471,754)	6,989,208	3,517,454
2008	55,714,845	71,474,372	(15,759,527)	10,623,457	(5,136,070)	14,941,962	9,805,892
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



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
2012	\$ 63,830,272	\$ 2,400,313	\$ 2,169,764	\$ 68,400,349	8.2%
2011	58,293,184	2,396,385	2,514,647	63,204,216	4.1%
2010	56,249,816	2,299,585	2,137,280	60,686,681	6.3%
2009	52,428,648	2,182,429	2,492,234	57,103,311	2.5%
2008	50,808,825	2,386,285	2,519,735	55,714,845	4.6%
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%

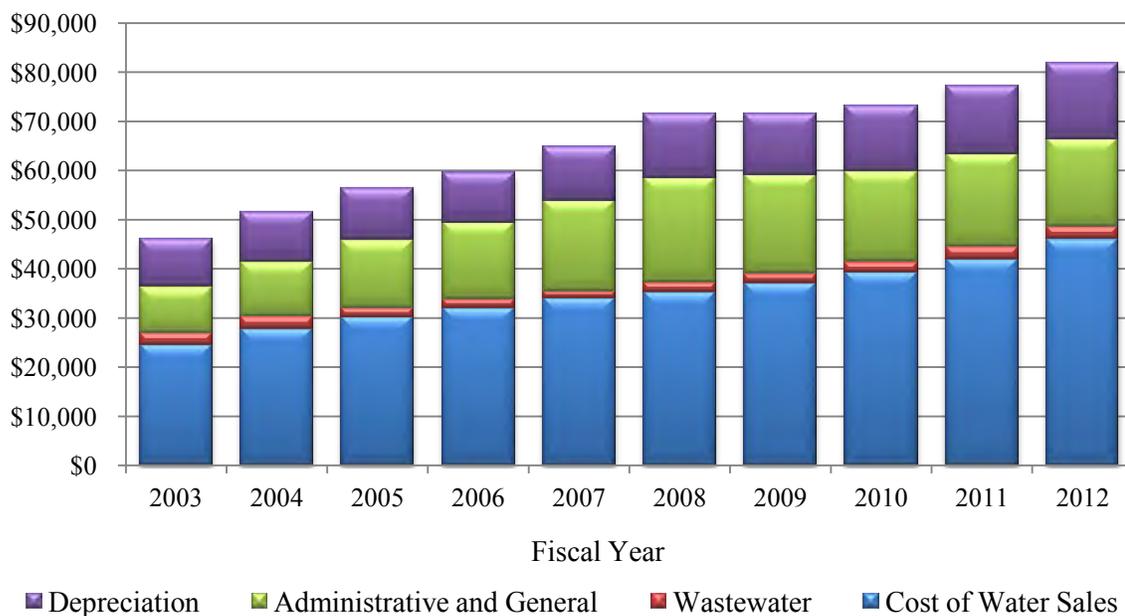


Source: Otay Water District

Operating Expenses by Function - Last Ten Fiscal Years

Year	Water Sales	Wastewater	Administrative and General	Depreciation	Total	Percent Change
2012	\$ 46,106,403	\$ 2,547,929	\$ 17,926,430	\$ 15,214,704	\$ 81,795,466	5.9%
2011	42,029,819	2,592,823	18,763,380	13,880,206	77,266,228	5.7%
2010	39,338,495	2,169,988	18,320,362	13,297,497	73,126,342	2.3%
2009	37,252,482	1,890,804	19,888,161	12,475,714	71,507,161	0.05%
2008	35,296,002	2,009,876	21,127,922	13,040,572	71,474,372	10.6%
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%

Operating Expenses, in Thousands (\$)

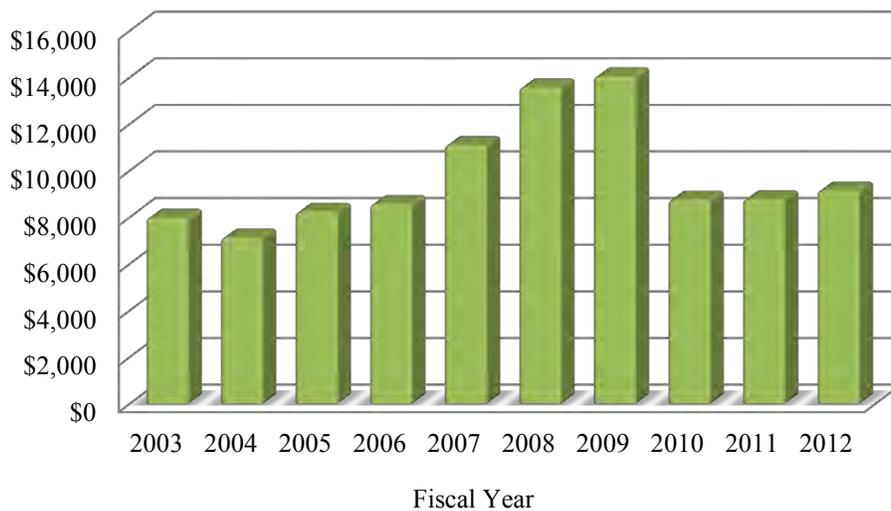


Source: Otay Water District

Non-Operating Revenues by Source - Last Ten Fiscal Years

Fiscal Year	Investment Income	Taxes and Assessments	Availability Charges	Miscellaneous	Total	Percent Change
2012	\$ 436,596	\$ 3,502,155	\$ 696,863	\$ 4,510,171	\$ 9,145,785	4.4%
2011	854,440	3,895,938	653,012	3,360,263	8,763,653	0.2%
2010	1,323,844	3,973,328	670,784	2,777,930	8,745,886	-37.7%
2009	2,252,335	4,586,823	625,065	6,574,850 ⁽²⁾	14,039,073	3.5%
2008	4,538,791	4,591,023	744,722	3,692,206	13,566,742	22.3%
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%

Non-Operating Revenues, in Thousands (\$)



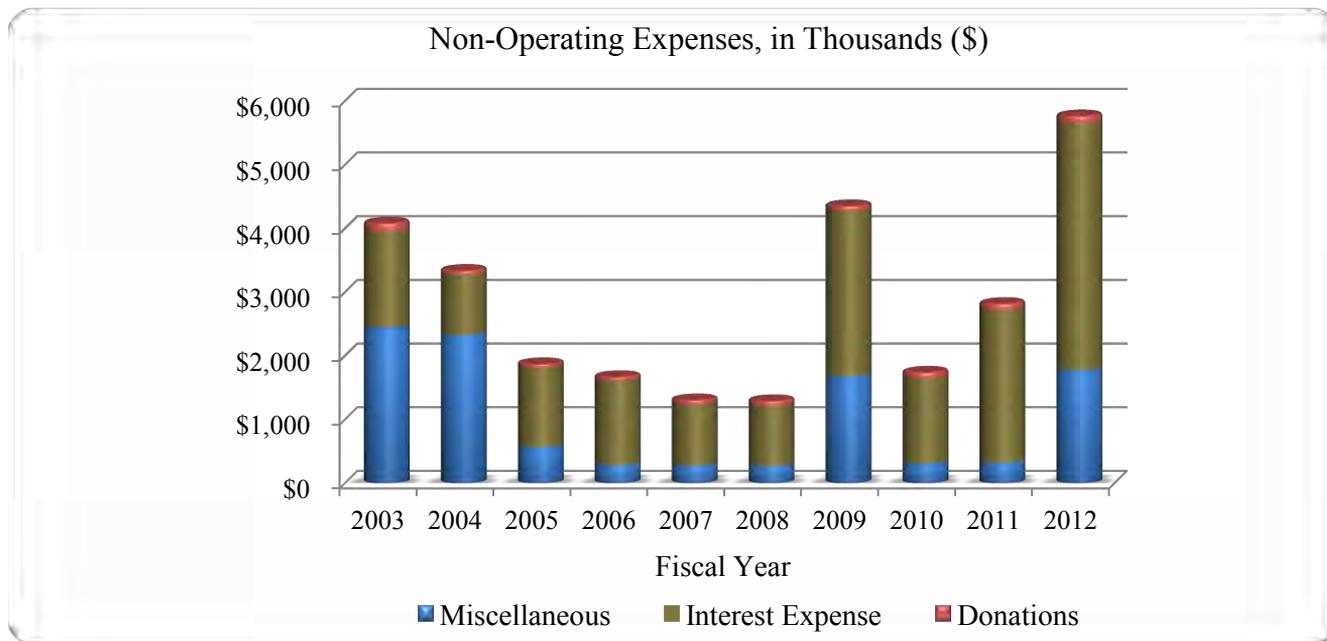
⁽¹⁾ The District sold capital assets during Fiscal Year 2005 which resulted in a gain of \$2,196,655.

⁽²⁾ The District received a large, one-time legal settlement as a member of a class action lawsuit in Fiscal Year 2009.

Source: Otay Water District

Non-Operating Expenses by Function - Last Ten Fiscal Years

Fiscal Year	Donations ⁽¹⁾	Interest Expense	Miscellaneous	Total	Percent Change
2012	\$ 121,617	\$ 3,899,927	\$ 1,767,226 ⁽²⁾	\$ 5,788,770	34.3%
2011	120,648	3,877,531	312,649	4,310,828	53.5%
2010	100,240	2,404,530	303,541	2,808,311	-9.6%
2009	95,270	1,340,110	1,671,597	3,106,977	5.6%
2008	80,541	2,601,252	261,492	2,943,285	126.1%
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%



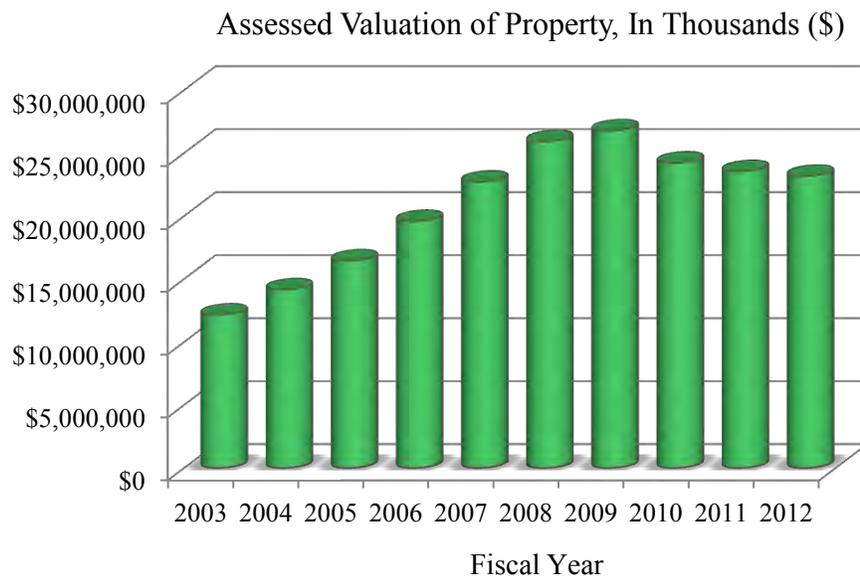
⁽¹⁾ Donations are contributions to the Water Conservation Authority formed in 1999. See Note 9 in the Notes to Financial Statements for more information.

⁽²⁾ Miscellaneous expense includes \$1.4 million of non-capitalizable expenses with corresponding miscellaneous revenues. In prior years these expenses and revenues were presented, net of revenue, in miscellaneous revenues.

Source: Otay Water District

Assessed Valuation of Taxable Property within the District - Last Ten Fiscal Years

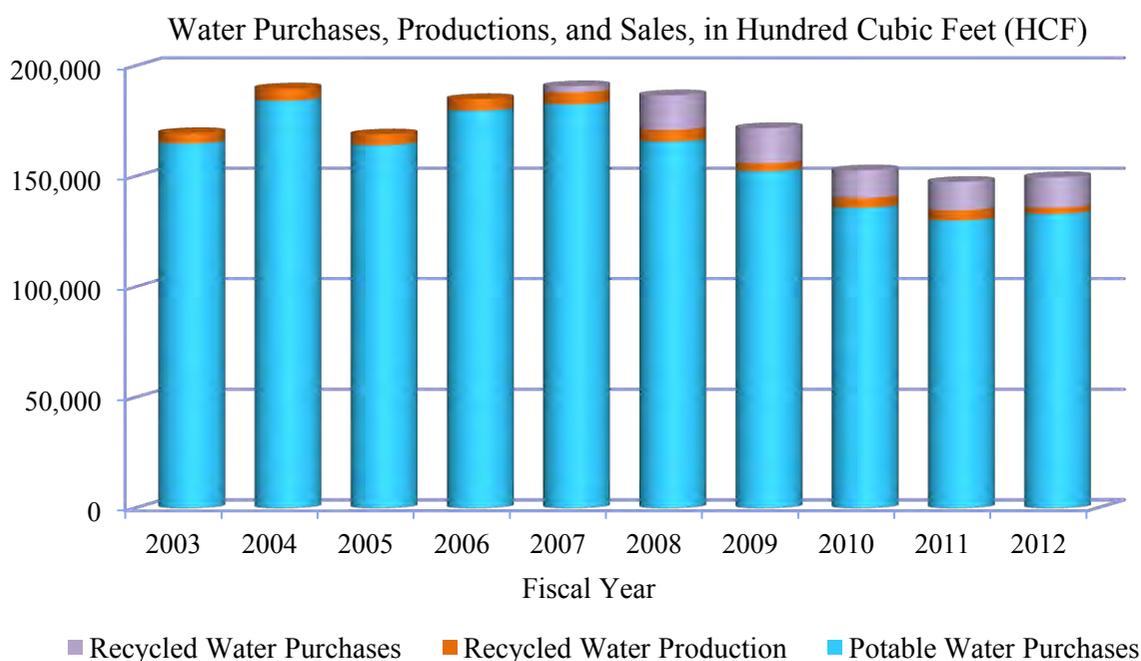
Fiscal Year	Real	Personal	Total	Percent Change
2012	\$ 22,556,489,450	\$ 588,978,085	\$ 23,145,467,535	-1.59%
2011	22,997,752,952	521,424,896	23,519,177,848	-2.81%
2010	23,671,616,006	527,200,694	24,198,816,700	-9.54%
2009	26,269,630,081	482,465,611	26,752,095,692	3.28%
2008	25,333,821,005	568,975,196	25,902,796,201	14.19%
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%



Source: County of San Diego Auditor and Controller

Water Purchases, Production, and Sales - Last Ten Fiscal Years

Fiscal Year	Potable Water ⁽¹⁾		Recycled Water ⁽¹⁾		
	Per 100 Cubic Feet		Per 100 Cubic Feet		
	Purchases	Sales	Production	Purchases	Sales
2012	13,304,444	12,510,894	285,190	1,381,300	1,652,833
2011	13,007,365	12,363,608	461,060	1,293,310	1,676,775
2010	13,580,004	12,749,799	449,771	1,250,873	1,774,563
2009	15,233,498	14,923,843	367,461	1,593,621	1,991,737
2008	16,572,271	15,575,662	538,227	1,566,148	2,001,137
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



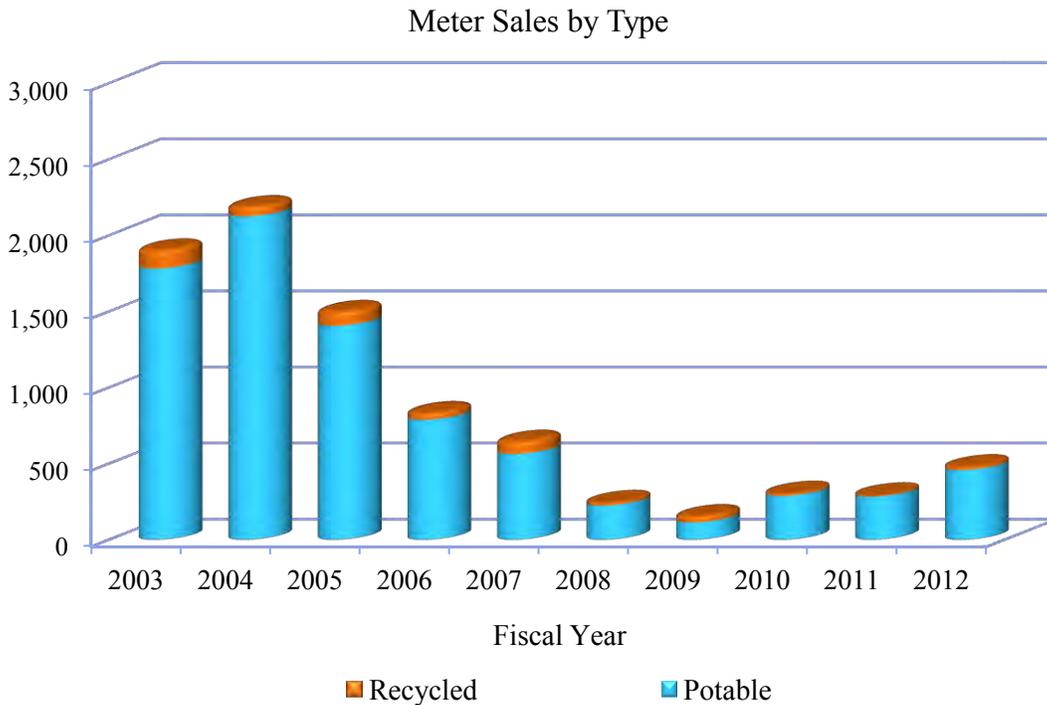
⁽¹⁾ Rates are not presented on this schedule because the District has multiple water rates for various meter sizes and cannot represent rates in a meaningful manner with a weighted average rate. See Water and Sewer rates on page 67-68 for meter sizes and their corresponding water rates.

⁽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

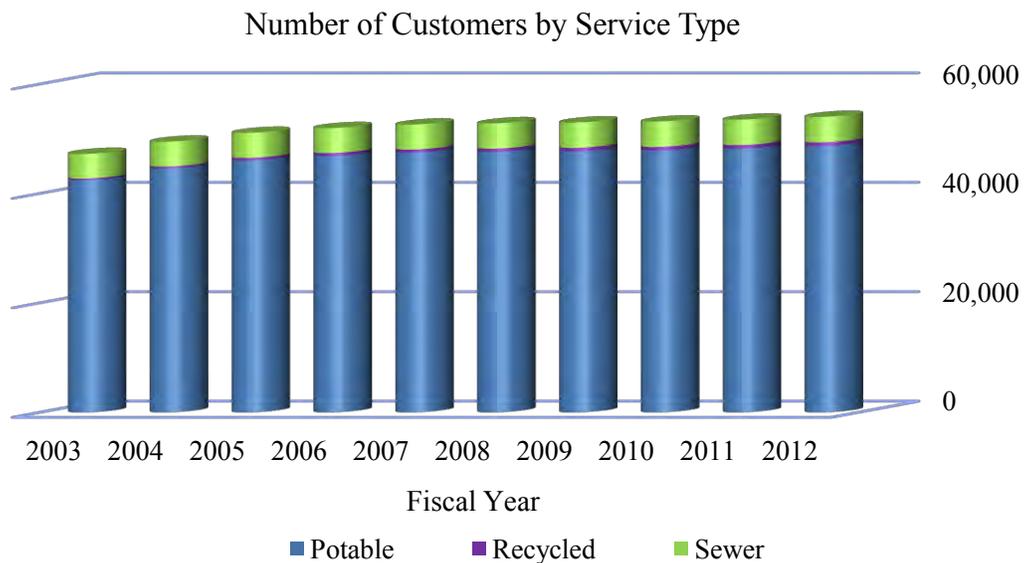
Fiscal Year	Potable	Recycled	Total
2012	457	24	481
2011	283	9	292
2010	288	17	305
2009	113	44	157
2008	224	22	246
2007	563	85	648
2006	788	47	835
2005	1,406	95	1,501
2004	2,125	64	2,189
2003	1,782	123	1,905



Source: Otay Water District

Number of Customers by Service Type - Last Ten Fiscal Years

Fiscal Year	Potable	Recycled	Sewer	Total
2012	48,665	696	4,655	54,016
2011	48,169	685	4,655	53,509
2010	47,844	684	4,646	53,174
2009	47,689	671	4,638	52,998
2008	47,591	626	4,627	52,844
2007	47,461	588	4,567	52,616
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

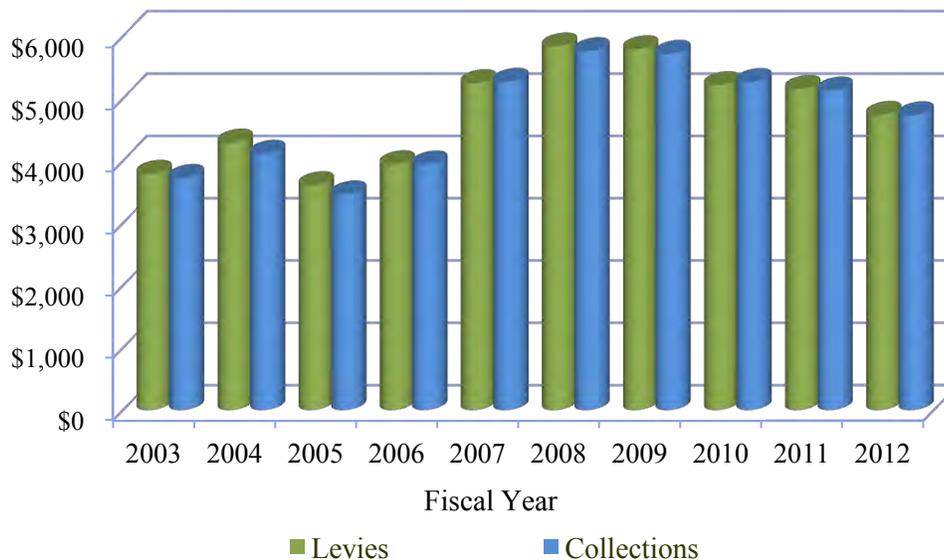


Source: Otay Water District

Property Tax Levies and Collections - Last Ten Fiscal Years

Fiscal Year	LEVIES ⁽¹⁾			Total Collections ⁽¹⁾	Net Receivable	Percent Collected
	1% Property Tax	Special Assessments	Total Levies			
2012	\$ 2,570,764	\$ 2,162,134	\$ 4,732,898	\$ 4,725,649	\$ 7,249	100%
2011	2,651,938	2,497,117	5,149,055	5,123,709	25,346	100%
2010	3,030,369	2,179,270	5,209,639	5,259,442	(49,803)	101%
2009	3,415,348	2,370,767	5,786,115	5,712,831	73,284	99%
2008	3,202,880	2,627,518	5,830,398	5,754,836	75,563	99%
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%

Levies and Collections, in Thousands (\$)



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

Source: Otay Water District

Water and Sewer Fixed Rates - Last Ten Fiscal Years

<i>System Fee (Meter Size)</i>	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<u>Residential</u>										
3/4"	\$ 14.58	\$ 14.58	\$ 14.58	\$ 13.83	\$ 12.30	\$ 11.30	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25
1"	18.52	18.52	18.52	17.56	19.80	18.15	16.50	16.50	16.50	16.50
1.5"	28.37	28.37	28.37	26.90	51.95	35.75	32.50	32.50	32.50	32.50
<u>Non-Residential & Others</u>										
3/4"	14.58	14.58	14.58	13.83	24.00	22.00	20.00	20.00	20.00	20.00
1"	18.52	18.52	18.52	17.56	36.95	33.90	30.80	30.80	30.80	30.80
1.5"	28.37	28.37	28.37	26.90	51.95	47.50	43.30	43.30	43.30	43.30
2"	40.18	40.18	40.18	38.10	64.95	59.60	54.20	54.20	54.20	54.20
3"	71.68	71.68	71.68	67.98	104.55	95.90	87.20	87.20	87.20	87.20
4"	107.13	107.13	107.13	101.59	119.70	109.80	99.80	99.80	99.80	99.80
6"	205.59	205.59	205.59	194.96	239.20	219.45	199.50	199.50	199.50	199.50
8"	323.73	323.73	323.73	307.00	-	-	-	-	-	-
10"	461.57	461.57	461.57	437.71	456.60	418.90	380.50	380.50	380.50	380.50
<u>CWA and MWD Pass-through charges (Meter Size)</u>										
<u>Residential</u>										
3/4"	14.01	11.82	9.77	4.33	3.85	3.55	2.85	2.50	2.00	1.00
1"	23.33	19.69	16.28	6.91	6.15	5.65	4.55	4.00	3.20	1.60
1.5"	46.74	39.44	32.61	13.04	11.60	10.65	8.55	7.50	6.00	3.00
<u>Non-Residential & Others</u>										
3/4"	14.01	11.82	9.77	4.33	3.85	3.55	2.85	2.50	2.00	1.00
1"	23.33	19.69	16.28	6.91	6.15	5.65	4.55	4.00	3.20	1.60
1.5"	46.74	39.44	32.61	13.04	11.60	10.65	8.55	7.50	6.00	3.00
2"	74.74	63.07	52.15	22.54	20.05	18.45	14.80	13.00	10.40	5.20
3"	149.48	126.14	104.30	41.53	36.95	34.05	27.35	19.20	9.60	9.60
4"	233.58	197.17	162.98	70.98	63.15	58.20	46.75	41.00	16.40	16.40
6"	467.09	394.17	325.92	129.82	115.50	106.45	85.50	75.00	30.00	30.00
8"	747.39	630.71	521.51	374.62	-	-	-	-	-	-
10"	1,070.74	903.58	749.61	538.52	300.30	276.75	222.30	195.00	78.00	78.00
<u>Fire Services</u>										
All Types	30.11	30.11	30.11	28.55	25.40	23.30	21.20	21.20	21.20	21.20
Sewer Fixed Fee	41.75	39.39	36.88	33.26	32.70	30.90	26.90	23.35	20.95	20.95

Source: Otay Water District

Water and Sewer Variable Rates - Last Ten Fiscal Years

Usage Rate ⁽¹⁾	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<u>Residential:</u>										
Tier 1	\$ 1.58	\$ 1.49	\$ 1.35	\$ 1.12	\$ 1.12	\$ 1.08	\$ 1.05	\$ 1.01	\$ 1.01	\$ 1.01
Tier 2	2.45	2.31	2.10	1.74	1.85	1.78	1.73	1.67	1.67	1.67
Tier 3	3.19	3.00	2.73	2.26	2.01	1.94	1.88	1.81	1.81	1.81
Tier 4	4.92	4.63	4.21	3.48	2.94	2.83	2.75	2.65	2.13	2.13
Tier 5			-	-	-	-	-	-	2.65	2.65
<u>Master Meter:</u>										
Tier 1	2.43	2.29	2.08	1.72	1.85	1.78	1.73	1.67	1.78	1.78
Tier 2	3.15	2.97	2.70	2.23	2.01	1.94	1.88	1.81	-	-
Tier 3	4.85	4.57	4.15	3.43	2.94	2.83	2.75	2.65	-	-
<u>Public Agency & Commercial:</u>										
<u>Publicly-Owned</u> ⁽²⁾					2.06	1.99	1.93	1.86	1.86	1.86
<u>Commercial & Others</u> ⁽³⁾					1.98	1.91	1.85	1.78	1.78	1.78
<u>Government Fee</u> ⁽²⁾					0.29	0.29	0.29	0.29	0.28	-
Tier 1	2.59	2.44	2.22	1.84						
Tier 2	2.66	2.50	2.27	1.88						
Tier 3	2.70	2.54	2.31	1.91						
<u>Landscape, Agricultural & Construction:</u>										
Tier 1	3.53	3.32	3.02	2.50						
Tier 2	3.60	3.39	3.08	2.55						
Tier 3	3.66	3.45	3.14	2.60						
<u>Recycled:</u>										
<u>Recycled (Commercial)</u>					1.67	1.65	1.57	1.51	1.51	1.51
<u>Recycled (Publicly-Owned)</u> ⁽²⁾					1.75	1.73	1.65	1.59	1.59	1.59
Tier 1	3.02	2.84	2.58	2.13						
Tier 2	3.06	2.88	2.62	2.17						
Tier 3	3.12	2.94	2.67	2.21						
<u>Energy Pumping Fee:</u>										
Per 100 cubic feet ⁽⁴⁾	0.045	0.044	0.038	0.034	0.034	0.032	0.032	0.032	0.032	0.032

⁽¹⁾ Effective 2009, all non-residential customers are charged based on a tiered rate system in which the water rates are based on meter size and amount of water units consumed each month.

⁽²⁾ An additional \$.29 per unit is charged to governmental customers this is in lieu of tax revenues. In the past an additional \$.08 is added to the publicly-owned companies water rate.

⁽³⁾ Others include landscaping, agricultural, and temporary meters. Agricultural customers under Special Agricultural Water Program (SAWR) shall receive a \$0.12 discount per hundred cubic feet (HCF).

⁽⁴⁾ Water customers are charged an energy pumping charge based on the quantity of water used and the elevation to which the water has been lifted to provide service. The energy pumping charge is the rate of \$.045 per 100 cubic feet of water for each 100 feet of lift above the base elevation of 450 feet. All water customers are in one of twenty-nine zones based on elevation.

Source: Otay Water District

Ten Largest Customers - Current Year and Nine Years Ago

FISCAL YEAR 2012

Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	\$ 2,534,914	4.0%
2. State of California	Publicly Owned	983,882	1.5%
3. Eastlake Summit Assoc	Commercial (Irrigation)	741,847	1.2%
4. County of San Diego	Publicly Owned	703,141	1.1%
5. Sweetwater School District	Publicly Owned	495,750	0.8%
6. Cuyamaca College	Publicly Owned	459,615	0.7%
7. ERP Operating LP	Commercial (Irrigation)	431,952	0.7%
8. Windingwalk Master Association	Commercial (Irrigation)	429,534	0.7%
9. Belleme HOA	Commercial (Irrigation)	399,036	0.6%
10. Eastlake Country Club	Commercial (Irrigation)	397,629	0.6%
Total (10 Largest)		\$ 7,577,300	11.9%
Other Customers		56,252,972	88.1%
Total Water Sales		\$ 63,830,272	100.0%

FISCAL YEAR 2004⁽¹⁾

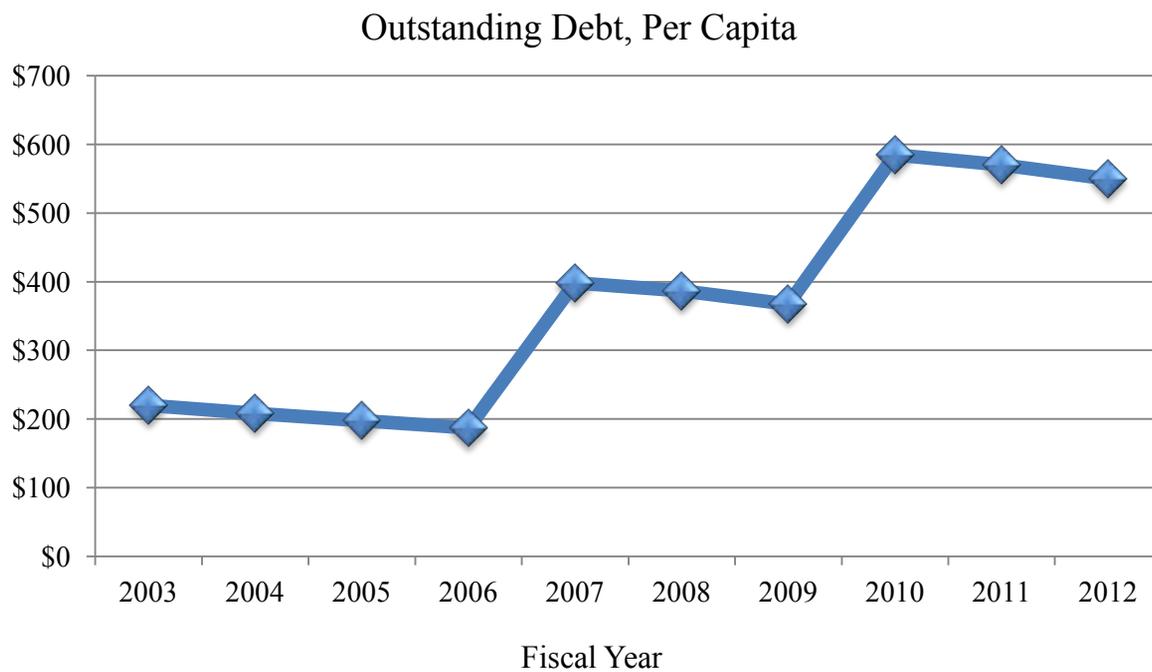
Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	\$ 1,127,011	2.9%
2. State of California	Publicly Owned	849,140	2.2%
3. County of San Diego	Publicly Owned	725,507	1.9%
4. Steele Canyon	Irrigation (Potable Permanent)	526,582	1.3%
5. Eastlake III	Business/Irrigation (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)		\$ 5,209,272	13.3%
Other Customers		33,835,440	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	Revenue Bonds	Notes	Capital Leases	Total	Per Capita	As a Share of Personal Income ⁽¹⁾
2012	208,500	\$ 6,339,027	\$ 57,886,449	\$ 50,321,421	\$ -	-	\$ 114,546,897	\$ 549.39	1.13%
2011	206,500	6,803,577	59,715,531	51,180,822	6,010	-	117,705,940	570.00	1.19%
2010	206,000	7,283,127	61,489,612	51,255,224	359,744	-	120,387,707	584.41	1.28%
2009	195,000	7,726,575	63,213,693	-	701,516	-	71,641,784	367.39	0.83%
2008	191,500	8,093,302	64,892,774	-	1,031,730	-	74,017,806	386.52	0.85%
2007	190,000	8,445,029	65,851,790	-	1,350,778	-	75,647,597	398.15	0.89%
2006	189,000	8,776,755	24,909,352	-	1,659,037	51,589	35,396,733	187.28	0.44%
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	0.62%

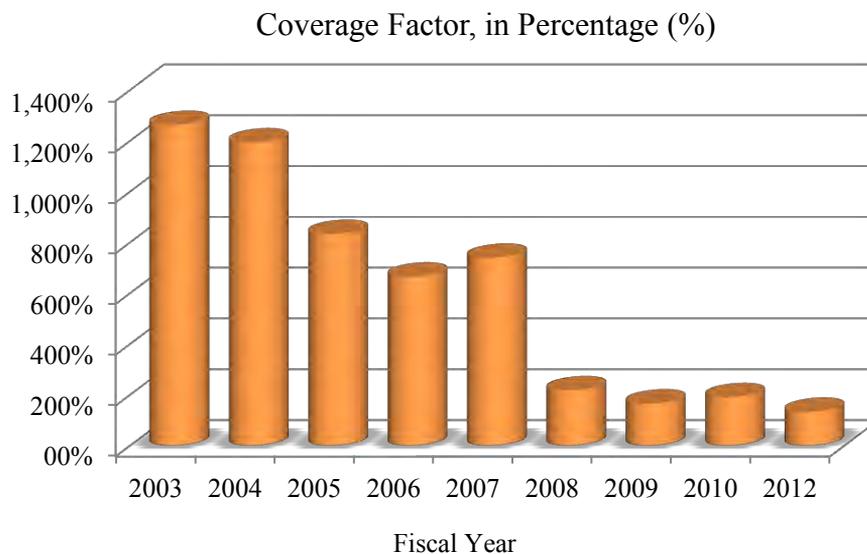


⁽¹⁾ See the Demographics and Economic Statistics schedule on page 75 for personal income data.

Source: Otay Water District

Pledged Revenue Coverage - Last Ten Fiscal Years

Fiscal Year	Adjusted Revenues ⁽¹⁾	Adjusted Operating Expenses ⁽²⁾	Net Revenues Available for Debt Service	Debt Service Requirements ⁽⁴⁾			Coverage Factor ⁽³⁾
				Principal	Interest	Total	
2012	\$ 74,484,691	\$ 64,028,686	\$10,456,005	\$1,850,000	\$6,050,746	\$7,900,746	132%
2011	69,653,627	60,117,245	9,536,382	1,795,000	5,084,450	6,879,450	139%
2010	65,573,058	57,084,904	8,488,154	1,745,000	2,720,258	4,465,258	190%
2009	63,739,773	57,076,567	6,663,207	1,700,000	2,342,048	4,042,048	165%
2008	63,732,275	56,420,286	7,311,989	800,000	2,567,884	3,367,884	217%
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%



⁽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.

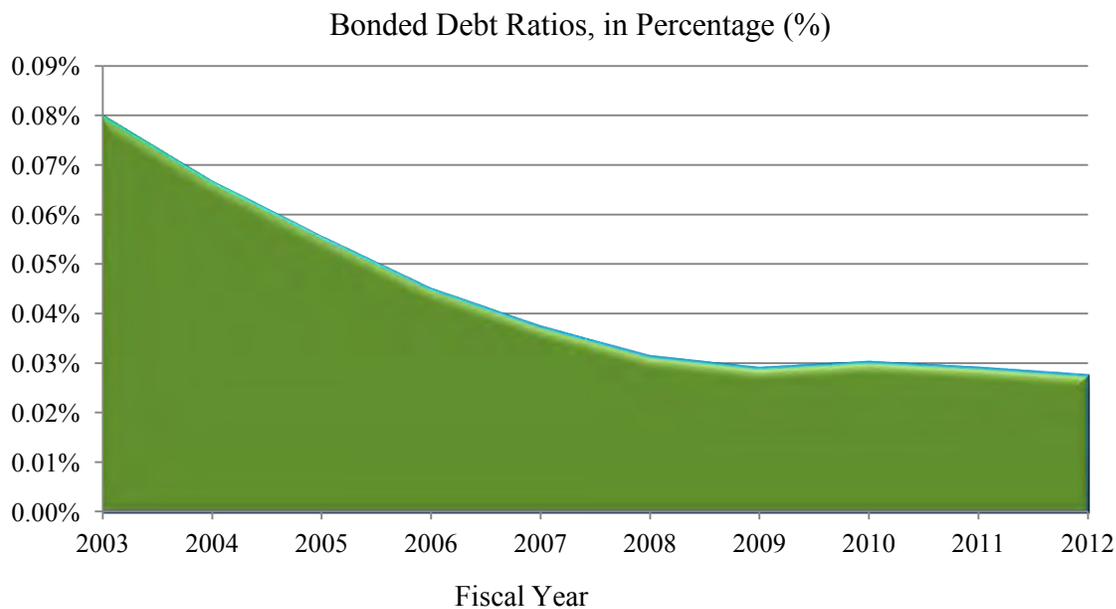
⁽³⁾ The District's bond covenants require a minimum coverage factor of 125%.

⁽⁴⁾ Pledge debts are Certificates of Participation (COPS) and Revenue Bonds.

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
2012	208,500	\$ 23,145,467,535	\$6,339,027	0.03%	30.40
2011	206,500	23,519,177,848	6,803,577	0.03%	32.95
2010	206,000	24,198,816,700	7,283,127	0.03%	35.35
2009	195,000	26,752,095,692	7,726,575	0.03%	39.62
2008	191,500	25,902,796,201	8,093,302	0.03%	42.26
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



Source: Otay Water District

Computation of Direct and Overlapping Bonded Debt

June 30, 2012

2011-12 Assessed Valuation:	\$23,145,467,535
Redevelopment Incremental Valuation:	<u>282,854,004</u>
Adjusted Assessed Valuation:	\$22,862,613,531

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt 6/30/12	% Applicable (1)	District's Share of Debt 6/30/12
Metropolitan Water District	\$ 196,545,000	1.262%	\$ 2,486,294
Otay Water District Improvement District No. 27	6,755,000	100.000	6,755,000
Grossmont-Cuyamaca Community College District	188,314,045	16.979	31,973,842
Southwestern Community College District	240,489,345	44.921	108,030,219
Grossmont Union High School District	412,395,045	17.503	72,181,513
Sweetwater Union High School District	334,479,415	54.285	181,572,150
Chula Vista City School District	70,265,000	62.882	44,184,037
San Ysidro School District	133,902,611	60.164	80,561,167
Other School Districts	2,951,010,678	Various	41,142,132
Grossmont Healthcare District	221,902,076	15.443	34,268,338
City of Chula Vista Community Facilities District	215,740,000	100.000	215,740,000
Chula Vista City School District Community Facilities Districts	5,580,000	100.000	5,580,000
Sweetwater Union High School District Community Facilities Districts	173,576,177	2.523-100.	161,896,609
City 1915 Act Bonds	44,237,400	37.539-100.	38,191,236
California Statewide Communities Development Authority San Diego County / Venture Community Center Assessment District	1,078,754	100.000	<u>1,078,754</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$1,025,641,291

Ratios to 2011-12 Assessed Valuation:

Direct Debt (\$6,755,000)	0.03%
Total Overlapping Tax and Assessment Debt	4.43%

DIRECT AND OVERLAPPING GENERAL FUND DEBT:

San Diego County General Fund Obligations	\$395,115,000	6.633%	\$ 26,207,978
San Diego County Pension Obligations	787,112,618	6.633	52,209,180
San Diego Superintendent of Schools Certificates of Participation	18,750,000	6.633	1,243,688
Otay Water District Certificates of Participation	58,245,000	100.000	58,245,000
Grossmont and Southwestern Community College District General Fund Obligations	2,870,000	16.979 & 44.921	858,926
Grossmont Union High School District Certificates of Participation	1,080,000	17.503	189,032
Sweetwater Union High School District Certificates of Participation	11,325,000	54.285	6,147,776
Chula Vista City School District Certificates of Participation	148,925,000	62.882	93,647,019
San Ysidro School District Certificates of Participation	43,946,015	60.164	26,439,680
Other School District Certificates of Participation	11,235,000	Various	3,115,241
City of Chula Vista Certificates of Participation	132,290,000	71.723	94,882,357
City of San Diego General Fund Obligations	481,630,000	1.113	5,360,542
San Miguel Consolidated Fire Protection District Certificates of Participation	5,855,000	52.797	<u>3,091,264</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$371,637,683
Less: Otay Water District Certificates of Participation (100% self-supporting)			<u>58,245,000</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$313,392,683

TOTAL GROSS DIRECT DEBT	\$65,000,000
TOTAL NET DIRECT DEBT	\$6,755,000
TOTAL OVERLAPPING DEBT	\$1,332,278,974

GROSS COMBINED TOTAL DEBT	\$1,397,278,974	(2)
NET COMBINED TOTAL DEBT	\$1,339,033,974	

- (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. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to Adjusted Assessed Valuation:

Gross Total Direct Debt (\$65,000,000)	0.28%
Net Total Direct Debt (\$6,755,000)	0.03%
Gross Combined Total Debt	6.11%
Net Combined Total Debt	5.86%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/12: \$0

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

Principal Employers - Current Year and Nine Years Ago

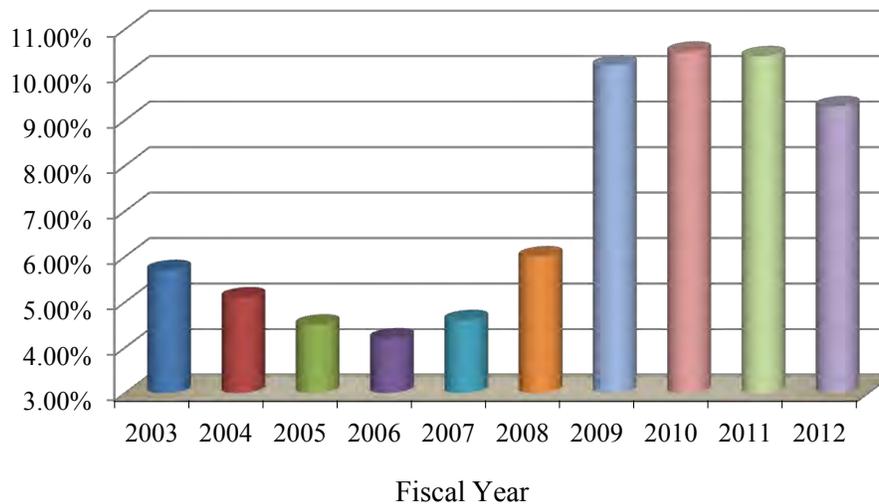
<u>Employer</u>	<u>2012</u>			<u>2003</u>		
	<u>Employees</u>	<u>Rank</u>	<u>% of Total County Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>% of Total County Employment</u>
U.S. Department of Defense	133,323	1	9.50%	-	-	0.00%
Federal Government	45,500	2	3.24%	40,700	1	2.96%
State of California	42,900	3	3.06%	38,800	2	2.82%
UC San Diego	27,391	4	1.95%	23,225	3	1.69%
Sharp HealthCare	15,231	5	1.09%	12,945	4	0.94%
County of San Diego	15,076	6	1.07%	16,810	5	1.22%
San Diego Unified School District	14,603	7	1.04%	26,701	6	1.94%
Scripps Health	14,097	8	1.00%	10,517	7	0.76%
Qualcomm Inc.	11,400	9	0.81%	5,000	-	0.36%
City of San Diego	10,057	10	0.72%	12,398	8	0.90%
General Atomics (and affiliated companies)	7,386	-	0.53%	0	9	0.00%
UCSD Medical Center	<u>6,043</u>	-	<u>0.43%</u>	<u>6,619</u>	10	<u>0.48%</u>
Total	<u>343,007</u>		<u>23.65%</u>	<u>193,715</u>		<u>14.03%</u>

Source: California Labor Market Info, The Daily Transcript, and San Diego Business Journal

Demographic and Economic Statistics - Last Ten Fiscal Years

Year	Population	Personal Income (in 000'S)	Per Capita Personal Income	Unemployment Rate
2012 ⁽¹⁾	3,143,429	\$ 154,200,000	\$ 48,674	9.30%
2011	3,140,069	149,600,000	47,776	10.40%
2010	3,095,313	137,525,000	45,627	10.50%
2009	3,173,407	134,696,000	44,412	10.20%
2008	3,001,072	143,783,000	45,728	6.00%
2007	2,959,734	131,499,657	44,830	4.60%
2006	2,948,362	126,193,721	42,801	4.20%
2005	2,941,658	118,792,540	40,383	4.50%
2004	2,938,822	113,003,044	38,452	5.10%
2003	2,932,802	104,630,453	35,676	5.70%

Unemployment Rate, in Percentage (%)

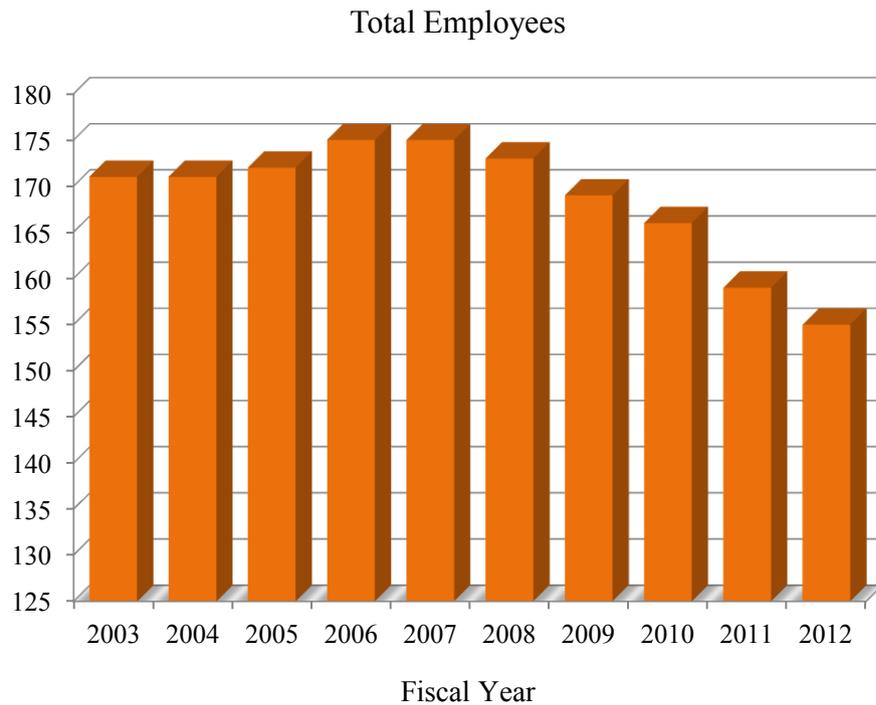


⁽¹⁾ Forecast

Source: SANDAG, Census 2010, California Department of Finance; LAEDC-Los Angeles Economic Development Corp., The Kyser Center for Economic Research Employment Development Department; Labor Market Info

Number of Employees by Function - Last Ten Fiscal Years

Department	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Manager	5	6	6	6	6	6	6	6	4	4
Finance	32	35	38	37	36	35	34	34	33	32
Operations/Maintenance	66	66	68	70	71	71	72	71	70	70
Engineering	21	21	21	23	27	31	15	13	33	31
Administrative Services	18	19	20	20	20	19	19	20	21	24
IT and Strategic Planning	13	12	13	13	13	13	12	11	10	10
Development Services ⁽¹⁾	-	-	-	-	-	-	17	17	-	-
Total	155	159	166	169	173	175	175	172	171	171



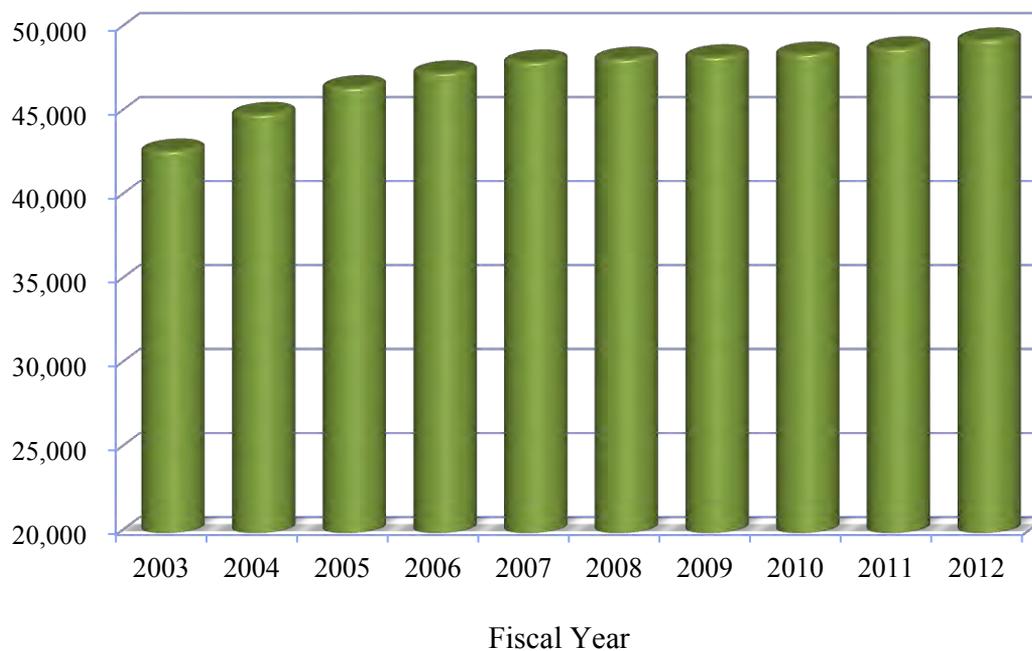
⁽¹⁾ Development Services was broken out from the Engineering and Planning Department in FY 2005 and then re-combined in FY 2007.

Source : Otoy Water District

Active Meters by Size - Last Ten Fiscal Years

Meter Size	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
3/4" & 5/8"	44,376	44,065	43,815	43,641	43,551	43,544	43,070	42,420	41,069	39,138
1"	2,099	1,881	1,815	1,804	1,747	1,618	1,514	1,364	1,220	1,132
1-1/2"	1,326	1,317	1,317	1,309	1,275	1,242	1,199	1,147	1,037	918
2"	1,277	1,278	1,292	1,299	1,283	1,262	1,242	1,199	1,168	1,140
3"	75	75	75	75	76	76	69	67	66	61
4"	180	193	184	202	258	275	277	289	329	308
6"	19	21	22	21	19	24	27	27	27	27
Others	9	9	8	9	10	7	11	12	15	26
Total	49,361	48,839	48,528	48,360	48,219	48,048	47,409	46,525	44,931	42,750
% Change	1.1%	0.6%	0.3%	0.3%	0.4%	1.3%	1.9%	3.5%	5.1%	4.4%
Increase	522	311	168	141	171	639	884	1,594	2,181	1,791

Active Meters by Size

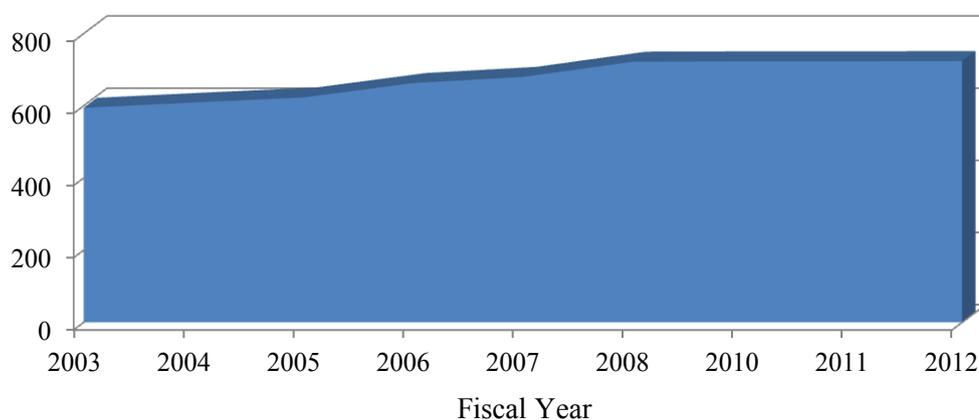


Source : Otay Water District

Operating and Capital Indicators - Last Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<u>Water System</u>										
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	724	723	723	722	722	680	663	623	609	594
Number of Operational Storage Reservoirs in Service	40	40	40	38	36	37	37	36	37	37
Water Storage Capacity (in Acre-Feet)	693.64	694.74	663.8	655.5	605.5	601.7	601.7	582.4	585.4	582.3
Total Water Connections (No. of Meters in Service)	49,493	49,094	48,662	48,522	48,376	47,615	47,409	46,525	44,931	42,750
Number of Pump Stations	24	24	23	24	24	24	22	21	21	21
Number of Potable Water Valves	20,317	19,522	19,522	19,192	19,131	18,721	18,042	17,696	16,204	15,830
<u>Sewer System</u>										
Miles of Sewer Lines	88.0	88.0	88.0	88.0	88.0	86.2	86.2	85.9	85.4	84.8
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 2012 (in Million Gallons)	423	481	474	483	503	514	528	506	479	463
<u>Recycled System</u>										
Miles of Recycled Water Mains	99.0	98.0	98.0	97.0	93.0	83.0	77.6	76.4	70.7	60.6
Number of Pumping Facilities	3	3	3	3	3	3	2	2	2	2
Number of Acre-Feet Storage	134.1	134.1	134.1	133.2	135.0	134.1	97.3	97.3	97.3	97.3
Number of Recycled Water Valves	1,430	1,380	1,380	1,338	1,314	1,245	1,189	1,155	1,097	948

Potable Water Mains, in Miles



Source : Otay Water District