



# Comprehensive Annual Financial Report

*Fiscal Year Ended June 30, 2010*



*Palo Verde Desert Museum - WaterSmart Tree*

*Prepared by:*

*Finance Department  
Spring Valley, California*



*Native California Poppy - WaterSmart Flowers*

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# Introductory





*...Dedicated to Community Service*

2554 SWEETWATER SPRINGS BOULEVARD, SPRING VALLEY, CALIFORNIA 91978-2004  
TELEPHONE: 670-2222, AREA CODE 619

October 12, 2010

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, 2010.

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

The District's financial statements have been audited by Diehl, Evans & Company, 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, 2010, 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, 2010, 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 and the construction, operation and maintenance, betterment, and renewal and replacement of the public water and sewer facilities.

The General Manager reports directly to the Board of Directors and, through two Assistant General Managers and the District management, oversees day-to-day operations. One Assistant General Manager oversees the departments of Administrative Services, Finance, Information Technology and Strategic Planning, while the other oversees the Water Operations and Engineering departments. These and other lines of reporting are shown on the organization chart on page 9.

Over the last 54 years, the District has grown from a handful of customers and two employees to become an organization operating a network with more than 893 miles of pipelines, 44 operational reservoirs, a reclaimed water facility, and one of the largest recycled water distribution networks in San Diego County. The character of the service area has also changed from predominantly dry-land farming and cattle ranching, to businesses, high-tech industries, and large master-planned communities.



Today the District provides water service to nearly 47,932 potable and 683 recycled customers within approximately 125.5 square miles of southeastern San Diego County. All of the potable water sold to customers is purchased from 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). 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 is nearing completion on a 5.1 mile, 36-inch diameter pipeline. Drinking water delivered by this new pipeline will be stored in two recently constructed 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 to provide public sewer service to approximately 4,646 homes and businesses 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 purchases 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 customers with the best quality water, wastewater, and recycled water service in a professional, effective, and efficient manner. As in past years, we again face several key challenges. These challenges include: an economy in recession and continuing instability in the financial markets; ongoing home foreclosures; reduced rainfall throughout the Southwest; water shortages brought about by legal action to reduce water deliveries from the Sacramento – San Joaquin Bay Delta; and the higher cost of imported water. Given these uncertain times, the District must find the best solutions that balance the many expectations placed on it by its customers. Meeting our customers' expectations requires dedication, a commitment to continuous improvement, and the innovative use of technologies and resources.

While overall growth in San Diego County has slowed over the last three years, population within the District's service area continues to increase albeit at a much reduced rate. As of July 2010, it is estimated that the District served 206,000 residents. The San Diego Association of Governments (SANDAG), the regional planning agency, has estimated the District's growth will continue for a decade or more. The District projects an ultimate customer population of 295,000 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 2010 budget is \$105.4 million, with operating expenditures of \$77.0 million and capital expenditures of \$28.4 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 \$76,993,900 for Fiscal Year 2011. Revenues from potable and recycled water are projected to be \$63,954,500, about \$122,500 (0.2%) less than the Fiscal Year 2010 budget. Water sales volumes are expected to decrease as a result of the slowing economy and expanded efforts to promote water conservation. Rate increases are therefore essential to offset the higher wholesale cost of water. Sewer revenues are projected to be \$2,270,500, about \$25,700 more than Fiscal Year 2010, because of necessary rate increases. The remaining revenue of \$10.8 million comes from special fees and assessments and miscellaneous income.

Significant aspects of the Operating Budget are:

- A balanced budget meeting the goals of the Strategic Plan.
- An updated six-year Rate Model to ensure sound financial planning and reserve levels.
- Ongoing water supply rate increases of 12.2% from MWD and 11.3% from CWA because of the high cost of supply programs, higher energy costs, and operating costs.
- Implemented rate increases in potable, recycled water, and sewer. This included pass-through rate increases from CWA, and the County of San Diego.
- In response to the economic slowdown, the District has again reduced staffing levels from 166 full time equivalent positions to 159. It has also cut operating expenditures by \$233,100 due to program funding changes and other discretionary spending cuts.
- Of San Diego County's 23 water agencies, Otay's water rate is the seventh-lowest and below the county-wide average.
- Expanded residential, landscape, and commercial water conservation programs.



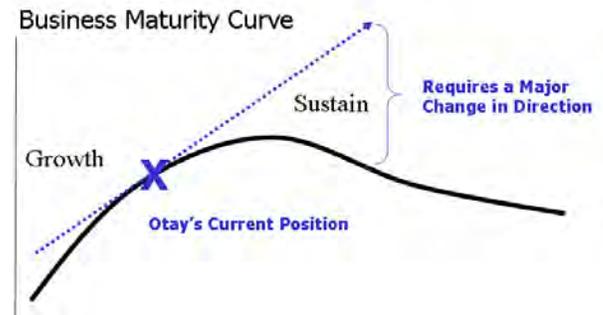
The 2010-11 Capital Improvement Program (CIP) Budget consists of 82 projects and a budget of \$28.4 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth. This year's CIP budget decreased by \$8.7 million compared to last year's projection, which is due to the completion of the Jamacha Pipeline Project.

## STRATEGIC PLAN

The primary way to achieve our objectives is to improve all aspects of our core business processes. The main tool we use to accomplish this goal is the Strategic Business Plan. Our first Strategic Plan was created in 2003 and it has been updated every three years since that time. The District is now entering the third year of the 2009-2011 Strategic Plan. The goal of the plan is to capitalize on the technology investments we have made and to utilize those technologies as we continue to improve productivity and efficiency.

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.

This change is illustrated by the Business Maturity Curve (see illustration). During high growth periods, efforts are focused on achieving the macro targets of building and installing new infrastructure. As an organization matures, fewer resources are needed to support growth, but the effort to maintain and improve infrastructure and assets increases. In addition, as an organization matures it derives income more from customer rates and less from developer fees. At this stage, increased maintenance and replacement costs place pressure on customer rates. To balance the customer's interest in minimizing rate increases while also maintaining an organization's infrastructure investments and a strong financial position, it must place greater emphasis on internal efficiency and the development of technology assisted best practices. In effect, we must use our investments in technology to do more with the same or fewer resources.



### The Future

The coming years will continue to pose challenges for those in California's water community. While the State of California received a normal amount of rainfall this year, federal court orders continue to curtail water deliveries from Northern California due to environmental factors in the Sacramento-San Joaquin Bay Delta, the source of 30% of our imported water. The political stalemate in the State Capital has also made finding compromise or addressing the environmental issues in the Bay Delta difficult. These factors combined are driving the higher cost of water statewide.

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 you would expect, the planned water sales reductions have impacted 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, we 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 revenue is 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 assurance that assets are adequately safeguarded and transactions are recorded correctly according to District policies and procedures. When establishing or reviewing controls, management must consider the cost of the control and the value of the benefit derived from its utilization. Management normally maintains and implements all sensitive controls and those controls whose value adequately exceeds their cost.

Management believes the District's internal controls, procedures, and policies adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. In addition, the District maintains controls to provide for compliance with all finance related legal and contractual provisions. Management believes the activities reported within the presented Comprehensive Annual Financial Report (CAFR) comply with these finance related legal and contractual provisions, including bond covenants and fiduciary responsibilities.

## CASH MANAGEMENT

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

## RISK MANAGEMENT

In 2003, the District became a member of the Special District Risk Management Authority (SDRMA), a pool program which provides the District's coverage for property, auto, liability, health benefits, and workers' compensation claims. During Fiscal Year 2009-2010, the District continued its proactive liability risk management role through careful monitoring of losses and designing and implementing programs to minimize risks and losses. In addition, the District's Safety Committee analyzes workers' compensation issues by monitoring work conditions, and organizing and implementing safety training programs to reduce employee exposure to hazards.

## PENSION PLANS

In addition to participating in Social Security, the District provides a defined benefit pension plan for its employees through the California Public Employees' Retirement System (CalPERS). The District contributes a specified percentage of covered employees' payroll, which is invested by CalPERS. Upon retirement, District employees are entitled to a specified retirement benefit. The plan is more fully described in Note 7 to the Financial Statements.

## OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The District provides other post-employment benefits (OPEB) as a part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes healthcare and other forms of benefits (for example life insurance), in addition to the benefits provided from specific pension plans. During Fiscal Year 2007-2008 the District elected to set up an OPEB trust fund with CalPERS and pre-funded \$5.6 million of its net OPEB obligations. With additional contributions made since then, the fund balance now stands at \$6.8 million. This is more than two-thirds of the actuarial accrued liability (AAL) of \$10.1 million as of June 30, 2009, the most recent actuarial valuation date. For additional information see Note 8 to the Financial Statements.

## 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 (CAFR) for the fiscal year ended June 30, 2009. This was the sixth 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.

The District also received a *Distinguished Budget Presentation Award* from the GFOA for the District's Operating and Capital Budget for Fiscal Year beginning July 1, 2009, as well as two awards from the California Society of Municipal Finance Officers (CSMFO) for *Excellence in Operating Budgeting* and *Excellence in Capital Budgeting*. These prestigious awards recognize conformance with the highest standards for preparation of state and local government financial reports.

The Construction Management Association of America (CMAA) presented Otay Water District the *2010 Project Achievement Award for the 1296-3 Reservoir Project* (public works projects less than \$2.5 million). In addition, the Otay Water District and Infrastructure Engineering Corporation received the American Public Works Association (APWA) *2010 Project of the Year Award for the 640-1 and 640-2 Reservoirs*.



The Otay Water District was presented with the *2010 Public Agency Partnership Award* from the Engineering and General Contractors Association, San Diego.

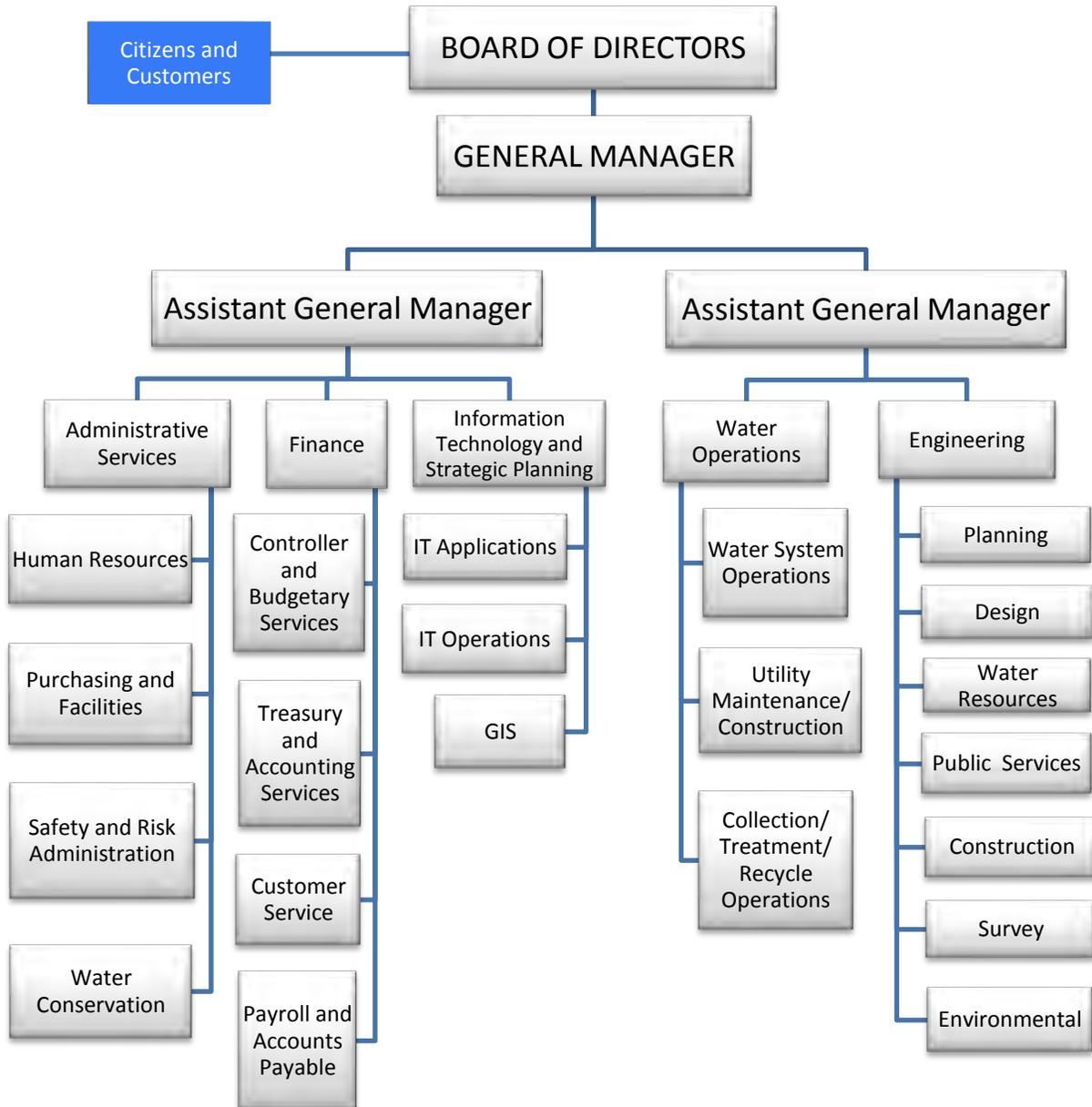
I would like to thank all of the staff involved for their efforts in preparing this Comprehensive Annual Financial Report, and for their hard work to ensure a successful outcome. I would also like to thank the firm of Diehl, Evans & Company, LLC, for their professional work and opinion. To the Board 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

Fiscal Year 2009-2010

## Board of Directors



President  
Jaime Bonilla  
**Division 2**



Vice-President  
Jose Lopez  
**Division 4**



Treasurer  
Gary D. Croucher  
**Division 3**



Larry Breitfelder  
**Division 1**  
January 2003-July 2010



Mark Robak  
**Division 5**



David Gonzales, Jr.  
**Division 1**

## District Financial Management

**Mark Watton** - General Manager

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

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

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



# Award

## 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, 2009

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



President

Executive Director

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# Financial

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WILLIAM C. PENTZ, CPA  
MICHAEL R. LUDIN, CPA  
CRAIG W. SPRAKER, CPA  
NITIN P. PATEL, CPA  
ROBERT J. CALLANAN, CPA

\* A PROFESSIONAL CORPORATION

October 12, 2010

**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, 2010 and 2009, 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. 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 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 financial position of the Otay Water District as of June 30, 2010 and 2009, and the 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.

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.

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IRVINE, CALIFORNIA 92606-5165  
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Our audit was conducted for the purpose of forming an opinion on the accompanying basic financial statements of the Otay Water District. 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.

*Diehl, Evans and Company, LLP*



# 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, 2010. 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 \$463.2 million (*net assets*). Of this amount, \$80.2 million (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$2.9 million. This is primarily attributable to the increase in capital contributions of \$9.1 million during the fiscal year.

## **Overview of the Financial Statements**

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

The *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 earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$463.2 million at the close of the most recent fiscal year.

By far the largest portion of the District's net assets, \$377.8 million (82%), 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 net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



# Management's Discussion and Analysis

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Assets</b>			
Current and Other Assets	\$ 135.3	\$ 96.8	\$ 106.2
Capital Assets	471.1	454.1	446.7
<b>Total Assets</b>	<u>606.4</u>	<u>550.9</u>	<u>552.9</u>
<b>Liabilities</b>			
Long-Term Debt Outstanding	117.7	69.1	71.6
Other Liabilities	25.5	21.5	24.5
<b>Total Liabilities</b>	<u>143.2</u>	<u>90.6</u>	<u>96.1</u>
<b>Net Assets</b>			
Invested in Capital Assets			
Net of Related Debt	377.8	382.4	372.7
Restricted for Debt Service	5.2	1.8	3.8
Unrestricted	80.2	76.1	80.3
<b>Total Net Assets</b>	<u>\$ 463.2</u>	<u>\$ 460.3</u>	<u>\$ 456.8</u>

At the end of FY-2010 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. In FY-2010 total Net Assets increased approximately \$2.9 million, to \$463.2 million, as compared to FY-2009 when Net Assets increased by over \$3.5 million. 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-2009 the decrease in Current and Other Assets of \$9.4 million corresponds with the increase in Capital Assets of \$7.4 million (net of accumulated depreciation), due primarily to the District's Capital Improvement Plan (CIP), which was financed in part by the funds remaining from the FY-2007 issuance of \$42 million in Certificates of Participation (COPS-2007).

In FY-2010 the District issued \$51.2 million of new Water Revenue Bonds, contributing to the increase in Current and Other Assets of \$38.5 million, and the increase in Long-Term Debt Outstanding of \$48.6 million. (See Note 5 in the Notes to Financial Statements). The use of the 2010 Water Revenue Bonds is also reflected in the increase in Capital Assets of \$17.0 million, as the District continued its CIP program. (See Note 3 in the Notes to Financial Statements).



# Management's Discussion and Analysis

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Water Sales	\$ 56.3	\$ 52.4	\$ 50.8
Wastewater Revenue	2.3	2.2	2.4
Connection and Other Fees	1.9	2.5	2.5
Non-operating Revenues	<u>8.7</u>	<u>14.0</u>	<u>13.6</u>
Total Revenues	<u>69.2</u>	<u>71.1</u>	<u>69.3</u>
Depreciation Expense	13.3	12.5	13.0
Other Operating Expense	59.3	59.0	58.5
Non-operating Expense	<u>2.8</u>	<u>3.1</u>	<u>2.9</u>
Total Expenses	<u>75.4</u>	<u>74.6</u>	<u>74.4</u>
Loss Before Capital Contributions	(6.2)	(3.5)	(5.1)
Capital Contributions	<u>9.1</u>	<u>7.0</u>	<u>14.9</u>
Change in Net Assets	2.9	3.5	9.8
Beginning Net Assets	<u>460.3</u>	<u>456.8</u>	<u>447.0</u>
Ending Net Assets	<u>\$ 463.2</u>	<u>\$ 460.3</u>	<u>\$ 456.8</u>

Water Sales increased by \$1.6 million in FY-2009 and \$3.9 million in FY-2010, mainly due to reduced rainfall during FY-2009 as well as rate increases in both years. The slowdown in growth throughout the District was also reflected in the decrease in Connection and Other Fees of \$0.6 million in FY-2010.

Non-operating Revenues increased by \$0.4 million in FY-2009 due primarily to increased property tax revenues. However in FY-2010, Non-operating Revenues decreased by \$5.3 million due to a combination of factors. First, there was a decrease in investment income due to a continuing drop in rates on investment securities. Also, in FY-2009 the District received a large, one-time legal settlement as a member of a class action lawsuit against a major supply vendor. Finally, in the prior year the District brought in capacity fee revenue to offset the write-off of a capital asset project that was deemed no longer economically viable for continued operations.

Capital Contributions were \$14.9 million in FY-2008 due to the completion of several developer construction projects. However, because of 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 a decrease in Capital Contributions of \$7.9 million in FY-2009. By FY-2010 this slowdown appears to have stabilized, while the District received \$2.4 million more than expected in federal grant monies due to last minute availability of funds from the federal budget.



# Management's Discussion and Analysis

## Capital Assets and Debt Administration

*Capital Assets.* The District's capital assets as of June 30, 2010, totaled \$471.1 million (net of accumulated depreciation). Included in this amount is land. The total increase in the District's capital assets was 1.7% for FY-2009 and 3.7% in FY-2010.

### Capital Assets (In Millions of Dollars)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land	\$ 13.6	\$ 13.4	\$ 13.0
Construction in Progress	37.1	18.3	42.3
Water System	409.5	403.1	365.6
Recycled Water System	97.7	96.8	93.0
Sewer System	37.4	37.2	36.7
Field Equipment	18.5	18.2	17.6
Buildings	9.5	9.5	9.5
Transportation Equipment	3.3	3.3	3.1
Communication Equipment	1.3	0.8	0.7
Office Equipment	18.4	17.4	16.8
	<u>646.3</u>	<u>618.0</u>	<u>598.3</u>
Less Accumulated Depreciation	<u>(175.2)</u>	<u>(163.9)</u>	<u>(151.6)</u>
Net Capital Assets	<u>\$ 471.1</u>	<u>\$ 454.1</u>	<u>\$ 446.7</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.

*Long-Term Debt.* At June 30, 2010, the District had \$117.7 million in outstanding debt which consisted of the following:

General Obligation Bonds	\$ 6.8
Certificates of Participation	59.7
Revenue Bonds	<u>51.2</u>
Total Long-Term Debt	<u>\$ 117.7</u>

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



# Management's Discussion and Analysis

## **Fiscal Year 2010-2011 Budget**

### **Economic Factors**

Growth in the San Diego area has slowed over the last 3 years, and demand for housing is reflected in a similarly reduced pace. Water sales volumes have gradually decreased as a result of a combination of the slowing economy and expanded efforts to promote water conservation. After years of record low precipitation that dramatically curtailed snow runoff from the Sierra Nevada Mountains, California's governor declared an official statewide drought in June 2008. Following the governor's action, all local jurisdictions were urged to implement water conservation ordinances and to "significantly increase efforts" to conserve water. In addition to the drought, federal court orders have curtailed water deliveries from Northern California due to environmental factors in the Sacramento-San Joaquin Bay Delta. A greater focus on environmental conditions in the Bay Delta brings added challenges to the delivery of water through the State Water Project. In order to maintain the ongoing supply of water to Southern California the various and competing interests need to arrive at genuine solutions. The combination of these factors will add to the cost of providing water. At the same time, ongoing water supply rate increases from the Metropolitan Water District (MWD) and the San Diego County Water Authority (CWA) have required the District to implement rate increases to pass-through these costs, as well as increases in energy costs and operating costs.

The District currently provides water service to about 70% of its total projected population, serving approximately 206,000 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 295,000 people, with an average daily demand of 55 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 in the case of a shutdown of the main treated water source. 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 29,900 acre-feet of potable water to 48,060 potable customer accounts during Fiscal Year 2010-2011. Management feels that these projections are very 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 resulted in hundreds of foreclosures throughout the District. Additionally, the crisis in the banking and financial industry has begun to have a ripple effect of employee layoffs across a wide swath of the business community. 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 housing pattern changes throughout the District, people's need for water remains an underlying constant. Staff continues working diligently on developing new water supplies as it addresses the financial impacts of conservation, preparing for the possibility of a continued water shortage and prolonged sales reductions.

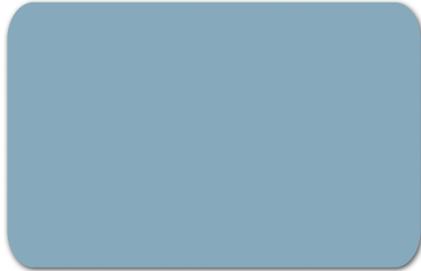
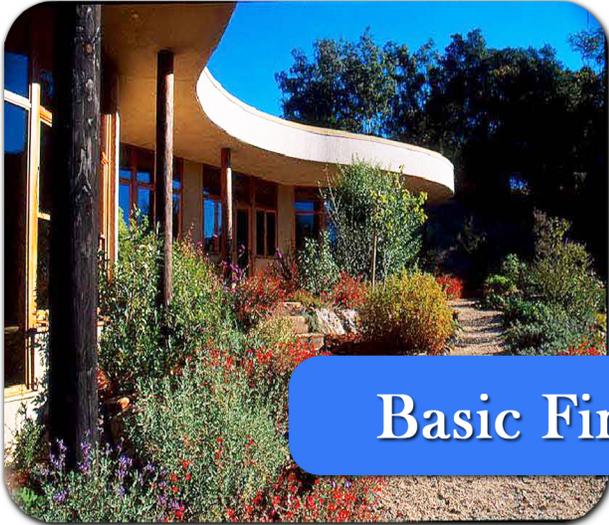
Management is unaware of any other conditions that could have a significant impact on the District's current financial position, net assets or operating results.

### **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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## Statement of Net Assets June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Notes 1 and 2)	\$ 40,180,519	\$ 50,823,237
Restricted Cash and Cash Equivalents (Notes 1 and 2)	21,131,924	1,760,631
Investments (Note 2)	43,085,300	26,169,080
Restricted investments (Notes 1 and 2)	11,150,549	-
Accounts Receivable, net	8,959,367	8,029,609
Accrued Interest Receivable	239,355	319,186
Taxes and Availability Charges Receivable, net	366,535	413,000
Restricted Taxes and Availability Charges Receivable, net	186,813	190,151
Inventories	954,007	816,865
Prepaid Expenses and Other Current Assets	626,421	976,045
Total Current Assets	<u>126,880,790</u>	<u>89,497,804</u>
Non-current Assets:		
Net OPEB Asset (Note 8)	<u>6,783,385</u>	<u>6,204,876</u>
Deferred bond issuance costs (Note 4)	<u>1,703,282</u>	<u>1,142,762</u>
Capital Assets (Note 3):		
Land	13,620,963	13,402,840
Construction in progress	37,081,849	18,280,278
Capital assets, net of depreciation	<u>420,363,833</u>	<u>422,369,157</u>
Total Capital Assets, net of depreciation	<u>471,066,645</u>	<u>454,052,275</u>
Total Non-current Assets	<u>479,553,312</u>	<u>461,399,913</u>
Total Assets	<u>606,434,102</u>	<u>550,897,717</u>

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



## Statement of Net Assets June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Current Maturities of Long-Term Debt (Note 5)	2,668,734	2,521,772
Accounts Payable	15,327,365	11,565,953
Accrued Payroll Liabilities	2,743,408	2,548,731
Other Accrued Liabilities	638,015	444,875
Customer Deposits	2,146,360	2,806,990
Accrued Interest	1,154,286	706,934
Liabilities Payable From Restricted Assets:		
Restricted Accrued Interest	100,326	153,270
Total Current Liabilities	<u>24,778,494</u>	<u>20,748,525</u>
Non-current Liabilities:		
Long-term Debt (Note 5)		
General Obligation Bonds	6,763,127	7,291,575
Certificates of Participation	59,694,612	61,468,693
Revenue bonds	51,255,224	-
Notes Payable	6,010	359,744
Other Non-current Liabilities	684,309	684,309
Total Non-current Liabilities	<u>118,403,282</u>	<u>69,804,321</u>
Total Liabilities	<u>143,181,776</u>	<u>90,552,846</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	377,855,787	382,410,491
Restricted for debt service	5,192,111	1,797,512
Unrestricted	80,204,428	76,136,868
Total Net Assets	<u>\$ 463,252,326</u>	<u>\$ 460,344,871</u>

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



## Statement of Revenues, Expenses and Changes in Net Assets Years Ended June 30, 2010 and 2009

	<b>2010</b>	<b>2009</b>
<b>OPERATING REVENUES</b>		
Water Sales	\$ 56,249,816	\$ 52,428,648
Wastewater Revenue	2,299,585	2,182,429
Connection and Other Fees	1,907,797	2,492,234
Total Operating Revenues	60,457,198	57,103,311
<b>OPERATING EXPENSES</b>		
Cost of Water Sales	39,338,495	37,252,482
Wastewater	2,169,988	1,890,804
Administrative and General	17,750,713	19,888,161
Depreciation	13,297,497	12,475,714
Total Operating Expenses	72,556,693	71,507,161
Operating Income (Loss)	(12,099,495)	(14,403,850)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment Income	1,323,844	2,252,335
Taxes and Assessments	3,973,328	4,586,823
Availability Charges	670,784	625,065
Gain on Sale of Capital Assets	(143,086)	5,206
Miscellaneous Revenues	2,921,016	6,569,644
Donations	(100,240)	(95,270)
Interest Expense	(2,404,530)	(1,340,110)
Miscellaneous Expenses	(303,541)	(1,671,597)
Total Non-operating Revenues (Expenses)	5,937,575	10,932,096
Income (Loss) Before Contributions	(6,161,920)	(3,471,754)
Capital Contributions	9,069,375	6,989,208
Change in Net Assets	2,907,455	3,517,454
Total Net Assets, Beginning	460,344,871	456,827,417
Total Net Assets, Ending	\$ 463,252,326	\$ 460,344,871

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



## Statement of Cash Flows

### Years Ended June 30, 2010 and 2009

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 56,959,013	\$ 54,358,847
Receipts from Connections and Other Fees	1,907,797	2,492,234
Other Receipts	1,837,028	5,538,973
Payments to Suppliers	(36,816,755)	(43,072,805)
Payments to Employees	(18,659,239)	(18,947,144)
Other Payments	(261,742)	(1,640,481)
	<u>4,966,102</u>	<u>(1,270,376)</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipts from Taxes and Assessments	4,023,131	4,520,867
Receipts from Property Rents and Leases	1,083,988	1,070,881
	<u>5,107,119</u>	<u>5,591,748</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Capital Contributions	7,946,690	4,014,110
Proceeds from Sale of Capital Assets	94,118	5,206
Proceeds from Debt Related Taxes and Assessments	670,784	625,065
Net proceeds from issuance of Long-Term Debt	57,826,816	-
Retirement of Long-Term Debt	(7,231,011)	-
Principal Payments on Long-Term Debt	(2,521,772)	(2,445,214)
Interest Payments and Fees	(2,477,159)	(1,366,547)
Acquisition and Construction of Capital Assets	(28,990,017)	(16,838,494)
	<u>25,318,450</u>	<u>(16,005,874)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received on Investments	1,336,944	2,494,196
Proceeds from Sale and Maturities of Investments	53,997,000	70,703,937
Purchase of Investments	(81,997,040)	(36,035,657)
	<u>(26,663,096)</u>	<u>37,162,476</u>
Net Cash Provided (Used) by Investing Activities	<u>(26,663,096)</u>	<u>37,162,476</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,728,575	25,477,974
Cash and Cash Equivalents -Beginning	<u>52,583,868</u>	<u>27,105,894</u>
Cash and Cash Equivalents -Ending	<u>\$ 61,312,443</u>	<u>\$ 52,583,868</u>

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



## Statement of Cash Flows

### Years Ended June 30, 2010 and 2009

	2010	2009
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Net Operating Income (Loss)	\$ (12,099,495)	\$ (14,403,850)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	13,297,497	12,475,714
Miscellaneous Revenues	1,837,028	5,538,973
Miscellaneous Expenses	(261,742)	(1,640,481)
(Increase) Decrease in Accounts Receivable	(929,758)	(339,889)
(Increase) Decrease in Inventory	(137,142)	(105,625)
(Increase) Decrease in Net OPEB Asset	(578,509)	(555,868)
(Increase) Decrease in Prepaid Expenses and Other Current Assets	349,624	931,983
Increase (Decrease) in Accounts Payable	3,761,412	(2,139,613)
Increase (Decrease) in Accrued Payroll and Related Expenses	194,677	57,549
Increase (Decrease) in Other Accrued Liabilities	193,140	(1,170,528)
Increase (Decrease) in Customer Deposits	(660,630)	87,659
Increase (Decrease) in Prepaid Capacity Fees	-	(6,400)
Net Cash Provided (Used) By Operating Activities	\$ 4,966,102	\$ (1,270,376)
<b>Schedule of Cash and Cash Equivalents:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 40,180,519	\$ 50,823,237
Restricted Cash and Cash Equivalents	21,131,924	1,760,631
Total Cash Provided (Used) By Operating Activities	\$ 61,312,443	\$ 52,583,868
<b>Supplemental Disclosures</b>		
Non-cash Investing and Financing Activities Consisted of the Following:		
Contributed Capital for Water and Sewer System	\$ 1,122,685	\$ 2,975,098
Change in Fair Value of Investments and Recognized Gains/Losses	230,747	21,613
Amortization Related to Long-Term Debt	142,039	126,387

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



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
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# Notes to Financial Statements Years Ended June 30, 2010 and 2009

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

### A) Reporting Entity

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

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

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

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

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 constraints placed on net asset 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 asset consists of net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

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 \$61,483 and \$67,017 at June 30, 2010 and 2009, respectively.



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

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

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

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 policy to use restricted resources first, then unrestricted resources as they are needed.

The District has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting, to apply all GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

#### 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 that 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, and interest incurred during the construction period. Repairs, maintenance, and minor replacements of property are charged to expense. Donated assets are capitalized at their approximate fair market value on the date contributed.

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

See independent auditors' report.



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 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

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

#### H) Restricted Assets and Liabilities

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

#### I) Allowance for Doubtful Accounts

The District charges doubtful accounts arising from water sales receivable to bad debt expense when it is probable that the accounts will be uncollectible. Uncollectible accounts are determined by the allowance method based upon prior experience and management's assessment of the collectability of existing specific accounts. The allowance for doubtful accounts was \$12,937 and \$17,531 for 2010 and 2009, 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.

See independent auditors' report.



# Notes to Financial Statements Years Ended June 30, 2010 and 2009

## 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:	<b>2010</b>	<b>2009</b>
Current Assets		
Cash and Cash Equivalents	\$ 40,180,519	\$ 50,823,237
Restricted Cash and Cash Equivalents	21,131,924	1,760,631
Investments	43,085,300	26,169,080
Restricted Investments	11,150,549	-
Total Cash and Investments	\$ 115,548,292	\$ 78,752,948

Cash and Investments consist of the following:

	<b>2010</b>	<b>2009</b>
Cash on hand	\$ 2,800	\$ 2,800
Deposits with Financial Institutions	4,158,859	5,701,125
Investments	111,386,633	73,049,023
Total Cash and Investments	\$ 115,548,292	\$ 78,752,948

### 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio <sup>(1)</sup>	Maximum Investment In One Issuer
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

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

See independent auditors' report.



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 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 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 is provided by the following tables that show the distribution of the District’s investments by maturity as of June 30, 2010 and 2009.

		<u>June 30, 2010</u>			
		Remaining Maturity (in Months)			
<u>Investment Type</u>		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
U.S. Government Sponsored Entities	\$ 53,911,225	\$ -	\$ 21,801,325	\$ 32,109,900	\$ -
Local Agency Investment Fund (LAIF)	34,561,668	34,561,668	-	-	-
Corporate Medium-term Notes	4,062,740	4,062,740	-	-	-
San Diego County Pool	18,851,000	18,851,000	-	-	-
<b>Total</b>	<b>\$ 111,386,633</b>	<b>\$ 57,475,408</b>	<b>\$ 21,801,325</b>	<b>\$ 32,109,900</b>	<b>\$ -</b>

		<u>June 30, 2009</u>			
		Remaining Maturity (in Months)			
<u>Investment Type</u>		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
U.S. Government Sponsored Entities	\$ 22,048,400	\$ -	\$ 22,048,400	\$ -	\$ -
Local Agency Investment Fund (LAIF)	7,489,943	7,489,943	-	-	-
Corporate Medium-Term Notes	4,120,680	-	4,120,680	-	-
San Diego County Pool	39,390,000	39,390,000	-	-	-
<b>Total</b>	<b>\$ 73,049,023</b>	<b>\$ 46,879,943</b>	<b>\$ 26,169,080</b>	<b>\$ -</b>	<b>\$ -</b>

See independent auditors’ report.



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 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 (where applicable) by the California Government Code or the District's Investment Policy, or debt agreements, and the actual rating as of June 30, 2010 and 2009 for each investment type.

		June 30, 2010			
Investment Type		Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Not Rated
U.S. Government Sponsored Entities	\$ 53,911,225	N/A	\$ 53,911,225	\$ -	\$ -
Local Agency Investment Fund (LAIF)	34,561,668	N/A	-	-	34,561,668
Corporate Medium-Term Notes	4,062,740	A		4,062,740	-
San Diego County Pool	18,851,000	N/A	-	-	18,851,000
Total	\$ 111,386,633		\$ 53,911,225	\$ 4,062,740	\$ 53,412,668

		June 30, 2009			
Investment Type		Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Not Rated
U.S. Government Sponsored Entities	\$ 22,048,400	N/A	\$ 22,048,400	\$ -	\$ -
Local Agency Investment Fund (LAIF)	7,489,943	N/A	-	-	7,489,943
Corporate Medium-Term Notes	4,120,680	A	2,061,960	2,058,720	-
San Diego County Pool	39,390,000	N/A	-	-	39,390,000
Total	\$ 73,049,023		\$ 24,110,360	\$ 2,058,720	\$ 46,879,943

See independent auditors' report.



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 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, 2010 and 2009 are as follows:

<u>June 30, 2010</u>		
<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	U.S. Government Sponsored Entities	\$ 20,044,400
Federal Home Loan Mortgage Corp	U.S. Government Sponsored Entities	\$ 11,791,825
Federal National Mortgage Association	U.S. Government Sponsored Entities	\$ 22,075,000

<u>June 30, 2009</u>		
<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	U.S. Government Sponsored Entities	\$ 5,996,260
Federal Home Loan Mortgage Corp	U.S. Government Sponsored Entities	\$ 4,022,100
Federal National Mortgage Association	U.S. Government Sponsored Entities	\$ 10,033,780

#### 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, 2010, \$819,689 of the District's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts. As of June 30, 2009, \$2,454,830 of the District's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

See independent auditors' report.



## Notes to Financial Statements Years Ended June 30, 2010 and 2009

### 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 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, 1600 Pacific Coast Highway, San Diego, CA 92101.

#### **Collateral for Deposits**

All cash and Certificates of Deposit are entirely insured or collateralized.

Under the provisions of the California Government Code, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure 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, 2010 and 2009

#### 3) CAPITAL ASSETS

The following is a summary of changes in Capital Assets for the year ended June 30, 2010:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated:				
Land	\$ 13,402,840	\$ 280,065	\$ (61,942)	\$ 13,620,963
Construction in Progress	18,280,278	28,300,354	(9,498,783)	37,081,849
Total Capital Assets Not Depreciated	31,683,118	28,580,419	(9,560,725)	50,702,812
Capital Assets, Being Depreciated:				
Infrastructure	537,188,394	8,508,856	(1,163,265)	544,533,985
Field Equipment	9,473,571	422,577	(366,590)	9,529,558
Buildings	18,165,527	299,465	(13,860)	18,451,132
Transportation Equipment	3,284,639	325,228	(331,175)	3,278,692
Communication Equipment	787,358	548,462	-	1,335,820
Office Equipment	17,403,147	1,362,848	(335,607)	18,430,388
Total Capital Assets Being Depreciated	586,302,636	11,467,436	(2,210,497)	595,559,575
Less Accumulated Depreciation:				
Infrastructure	135,582,472	11,462,706	(939,178)	146,106,000
Field Equipment	8,963,959	93,704	(372,084)	8,685,579
Buildings	6,090,921	446,906	(62,686)	6,475,141
Transportation Equipment	2,655,866	149,802	(327,814)	2,477,854
Communication Equipment	410,205	58,343	-	468,548
Office Equipment	10,230,056	1,086,036	(333,472)	10,982,620
Total Accumulated Depreciation	163,933,479	13,297,497	(2,035,234)	175,195,742
Total Capital Assets Being Depreciated, Net	422,369,157	(1,830,061)	(175,263)	420,363,833
Total Capital Assets, Net	<u>\$ 454,052,275</u>	<u>\$ 26,750,358</u>	<u>\$ (9,735,988)</u>	<u>\$ 471,066,645</u>

Depreciation expense for the years ended June 30, 2010 and 2009 was \$13,297,497 and \$12,475,714, respectively.

See independent auditors' report.



## Notes to Financial Statements Years Ended June 30, 2010 and 2009

### 3) CAPITAL ASSETS

The following is a summary of changes in Capital Assets for the year ended June 30, 2009:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated:				
Land	\$ 13,025,364	\$ 377,476	\$ -	\$ 13,402,840
Construction in Progress	42,338,220	19,496,000	(43,553,942)	18,280,278
Total Capital Assets Not Depreciated	55,363,584	19,873,476	(43,553,942)	31,683,118
Capital Assets, Being Depreciated:				
Infrastructure	495,249,373	42,051,766	(112,745)	537,188,394
Field Equipment	9,430,276	43,295	-	9,473,571
Buildings	17,636,124	529,403	-	18,165,527
Transportation Equipment	3,102,661	194,636	(12,658)	3,284,639
Communication Equipment	689,954	97,404	-	787,358
Office Equipment	16,825,593	577,554	-	17,403,147
Total Capital Assets Being Depreciated	542,933,981	43,494,058	(125,403)	586,302,636
Less Accumulated Depreciation:				
Infrastructure	125,132,713	10,562,504	(112,745)	135,582,472
Field Equipment	8,714,039	249,920	-	8,963,959
Buildings	5,637,685	453,236	-	6,090,921
Transportation Equipment	2,559,141	109,383	(12,658)	2,655,866
Communication Equipment	369,564	40,641	-	410,205
Office Equipment	9,170,026	1,060,030	-	10,230,056
Total Accumulated Depreciation	151,583,168	12,475,714	(125,403)	163,933,479
Total Capital Assets Being Depreciated, Net	391,350,813	31,018,344	-	422,369,157
Total Capital Assets, Net	<u>\$ 446,714,397</u>	<u>\$ 50,891,820</u>	<u>\$ (43,553,942)</u>	<u>\$ 454,052,275</u>

### 4) OTHER NON-CURRENT ASSETS

Deferred bond issue costs totaled \$1,703,282 and \$1,142,762, net of accumulated amortization of \$295,204 and \$296,308 as of June 30, 2010 and 2009, respectively. The costs are amortized on the straight-line method based on the estimated term of the related bond debt. Amortization expense of \$66,704 and \$56,030 for the years ended June 30, 2010 and 2009 is included in miscellaneous non-operating expenses.

See independent auditors' report.



## Notes to Financial Statements Years Ended June 30, 2010 and 2009

### 5) LONG-TERM DEBT

Long-Term liabilities for the year ended June 30, 2010 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>General Obligation Bonds:</b>					
Improvement District No. 27 - 1998	\$ 8,395,000	\$ -	\$ 8,395,000	\$ -	\$ -
Unamortized Bond Discount	(96,159)	-	(96,159)	-	-
Deferred Amount on Refunding	(572,266)	-	(572,266)	-	-
Improvement District No. 27 - 2009	-	7,780,000	-	7,780,000	520,000
Unamortized Bond Discount	-	209,884	10,903	198,981	-
Deferred Amount on Refunding	-	(728,990)	(33,136)	(695,854)	-
<b>Net General Obligation Bonds</b>	<u>7,726,575</u>	<u>7,260,894</u>	<u>7,704,342</u>	<u>7,283,127</u>	<u>520,000</u>
 <b>Certificates of Participation:</b>					
1996 Certificates of Participation	12,100,000	-	400,000	11,700,000	400,000
2004 Certificates of Participation	10,320,000	-	530,000	9,790,000	545,000
2007 Certificates of Participation	41,215,000	-	815,000	40,400,000	850,000
1996 COPS Unamortized Discount	(13,413)	-	(745)	(12,668)	-
2007 COPS Unamortized Discount	(250,219)	-	(9,044)	(241,175)	-
2004 COPS Unamortized Premium	16,500	-	1,165	15,335	-
2004 COPS Deferred Amount on Refunding	(174,175)	-	(12,295)	(161,880)	-
<b>Net Certificates of Participation</b>	<u>63,213,693</u>	<u>-</u>	<u>1,724,081</u>	<u>61,489,612</u>	<u>1,795,000</u>
 <b>Revenue Bonds:</b>					
2010 Water Revenue Bonds Series A	-	13,840,000	-	13,840,000	-
2010 Water Revenue Bonds Series B	-	36,355,000	-	36,355,000	-
2010 Series A Unamortized Premium	-	1,078,824	18,600	1,060,224	-
<b>Net Revenue Bonds</b>	<u>-</u>	<u>51,273,824</u>	<u>18,600</u>	<u>51,255,224</u>	<u>-</u>
 <b>Notes Payable:</b>					
State Water Resource Control Board	701,516	-	341,772	359,744	353,734
<b>Total Long-Term Liabilities</b>	<u>\$ 71,641,784</u>	<u>\$ 58,534,718</u>	<u>\$ 9,788,795</u>	<u>\$ 120,387,707</u>	<u>\$ 2,668,734</u>

See independent auditors' report.



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 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 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, 2010 was \$33,136 and is included in miscellaneous non-operating expenses. As of June 30, 2010, the unamortized deferred amount of refunding is \$695,853.

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
2011	\$ 520,000	\$ 267,012	\$ 787,012
2012	505,000	251,637	756,637
2013	520,000	236,262	756,262
2014	535,000	220,437	755,437
2015	550,000	204,162	754,162
2016-2020	3,045,000	724,468	3,769,468
2021-2023	2,105,000	127,903	2,232,903
	<u>\$ 7,780,000</u>	<u>\$ 2,031,881</u>	<u>\$ 9,811,881</u>

See independent auditors' report.



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 5) LONG-TERM DEBT - Continued

#### Certificates of Participation (COPS)

In June 1996, Certificates of Participation (COPS) with a 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. The interest rate at June 30, 2010 was 0.25%. 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 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 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 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 with a 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 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
2011	\$ 400,000	\$ 28,417	\$ 545,000	\$ 386,236	\$ 850,000	\$ 1,655,395
2012	400,000	27,417	565,000	368,607	885,000	1,622,864
2013	500,000	26,208	580,000	349,566	920,000	1,589,020
2014	500,000	24,958	600,000	328,906	955,000	1,553,864
2015	500,000	23,708	625,000	306,388	995,000	1,517,301
2016-2020	3,200,000	95,583	3,505,000	1,133,050	5,580,000	6,979,134
2021-2025	4,100,000	49,708	3,370,000	314,597	6,785,000	5,762,360
2026-2030	2,100,000	3,626	-	-	8,335,000	4,192,867
2031-2035	-	-	-	-	12,650,000	2,208,438
2036-2038	-	-	-	-	2,445,000	211,640
	<u>\$ 11,700,000</u>	<u>\$ 279,625</u>	<u>\$ 9,790,000</u>	<u>\$ 3,187,350</u>	<u>\$ 40,400,000</u>	<u>\$ 27,292,883</u>

\* Variable Rate - Interest reflected at June 30, 2010 at a rate of 0.25%.

The three COPS 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, 2010.

See independent auditors’ report.



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 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, 2011 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 semi-annually thereafter on March 1<sup>st</sup> and September 1<sup>st</sup> 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). A total of \$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. At June 30, 2010, \$18,600 has been amortized and is included in interest expense. The unamortized premium at June 30, 2010 is \$1,060,224.

The 2010 Water Revenue Bonds 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, 2010.

The total amount outstanding at June 30, 2010 and aggregate maturities of the revenue bonds for the fiscal years subsequent to June 30, 2010, are as follows:

For the Year Ended June 30	2010 Water Revenue Bonds Series A		2010 Water Revenue Bonds Series B	
	Principal	Interest	Principal	Interest
2011	\$ -	\$ 498,928	\$ -	\$ 2,049,031
2012	785,000	569,688	-	2,371,868
2013	800,000	553,838	-	2,371,868
2014	820,000	533,538	-	2,371,868
2015	845,000	508,563	-	2,371,868
2016-2020	4,700,000	2,018,963	-	11,859,342
2021-2025	5,890,000	779,567	-	11,859,342
2026-2030	-	-	7,745,000	10,685,177
2031-2035	-	-	10,570,000	7,756,703
2036-2040	-	-	14,535,000	3,664,211
2041	-	-	3,505,000	115,262
	<u>\$ 13,840,000</u>	<u>\$ 5,463,085</u>	<u>\$ 36,355,000</u>	<u>\$ 57,476,540</u>

See independent auditors' report.



# Notes to Financial Statements Years Ended June 30, 2010 and 2009

## 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 total amount outstanding at June 30, 2010 and aggregate maturities of the note for the fiscal years subsequent to June 30, 2010 are as follows:

For the Year Ended June 30	Principal	Interest
2011	\$ 353,734	\$ 12,591
2012	6,010	1
	\$ 359,744	\$ 12,592

## 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, 2010 and 2009:

	2010	2009
Designated Betterment	\$ 6,653,909	\$ 2,969,722
Designated Expansion Reserve	21,096,749	18,569,610
Replacement Reserve	24,483,877	26,388,812
Insurance Reserve	6,639,953	8,436,721
Total	\$ 58,874,488	\$ 56,364,865

## 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.

See independent auditors' report.



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 7) DEFINED BENEFIT PENSION PLAN - Continued

#### Funding Policy

Active members in the Plan are required to contribute 8% of their annual covered salary. The District has elected to contribute 7% on behalf of its employees. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2010 was 19.815%. The contribution requirements of the Plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

#### Annual Pension Costs

For the fiscal year ended June 30, 2010, the District's annual pension cost and actual contribution was \$2,240,538. The required contribution for the fiscal year ended June 30, 2010 was determined as part of the June 30, 2007 actuarial valuation.

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

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	20 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (Net of Administrative Expenses)
Projected Salary Increase	3.25% to 14.45% Depending on Age, Service, and Type of Employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the Plan's date of entry into CalPERS. Subsequent Plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the Plan are amortized over a rolling period, which results in an amortization of 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

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/10	\$ 2,240,538	100%	\$ 0
6/30/09	\$ 2,150,579	100%	\$ 0
6/30/08	\$ 2,252,601	100%	\$ 0

#### Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the Plan was 75.8% funded. The actuarial accrued liability (AAL) for benefits was \$65,542,736, and the actuarial value of assets was \$49,712,016, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,830,720. The covered payroll (annual payroll of active employees covered by the Plan) was \$11,174,528, and the ratio of the UAAL to the covered payroll was 141.7%.

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 the time relative to the actuarial accrued liability for benefits.

See independent auditors' report.



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 8) OTHER POST-EMPLOYMENT BENEFITS

#### Plan Description

The District’s defined benefit post-employment healthcare plan, (DHP), provides medical benefits to eligible retired District employees and beneficiaries. DHP 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. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees’ Retirement Law. DHP 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

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. DHP 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 \$95 per month for coverage to age 65, and from \$0 to \$62 per month, respectively thereafter.

#### Annual Other Post-Employment Benefits (OPEB) Cost and Net OPEB Obligation/Asset

The District’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, 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 2.9% 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:

	2010	2009
Annual Required Contribution (ARC)	\$ 345,000	\$ 873,000
Interest on net OPEB asset	(480,878)	(437,798)
Adjustment to Annual Required Contribution (ARC)	591,000	489,999
Annual OPEB cost	455,122	925,201
Contributions made	1,033,631	1,481,069
Increase in net OPEB asset	(578,509)	(555,868)
Net OPEB asset - beginning of year	(6,204,876)	(5,649,008)
Net OPEB asset - end of year	\$ (6,783,385)	\$ (6,204,876)

For 2010, in addition to the ARC, the District contributed an implied subsidy (healthcare premium payments for retirees to Special District Risk Management Authority (SDRMA) ) in the amount of \$597,631, which is included in the \$1,033,631 of contributions shown above. For 2009 this amount was \$608,069, which is included in the \$1,481,069 of contributions shown above.

See independent auditors’ report.



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 8) OTHER POST-EMPLOYMENT BENEFITS - Continued

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 2010, 2009 and 2008 are as follows:

THREE-YEAR TREND INFORMATION FOR CERBT				
<u>Fiscal Year</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>	
6/30/10	\$ 455,122	100%	\$ (6,783,385)	
6/30/09	\$ 925,201	100%	\$ (6,204,876)	
6/30/08	\$ 846,000	100%	\$ (5,649,008)	

### Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009, the most recent actuarial valuation date is as follows:

Actuarial Accrued Liability (AAL)	\$	10,070,000
Actuarial Value of Plan Assets	\$	6,273,000
Unfunded Actuarial Accrued Liability (UAAL)	\$	3,797,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)		62.29%
Covered Payroll (Active Plan Members)	\$	11,878,000
UAAL as a Percentage of Covered Payroll		31.97%

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.



## Notes to Financial Statements Years Ended June 30, 2010 and 2009

### 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, 2009
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	28 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	3.00%
Individual Salary Growth	CalPERS 1997-2002 Experience Study

### 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, 2010 and 2009, the District contributed \$100,240 and \$95,270, respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

A summary of the Authority's June 30, 2009 audited financial statement is as follows (latest report available):

Assets	\$ 2,388,402
Liabilities	52,488
Revenues, Gains and Other Support	719,224
Changes in Net Assets	(100,318)



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 10) COMMITMENTS AND CONTINGENCIES

#### **Construction Commitments**

The District had committed to capital projects under construction with an estimated cost to complete of \$1,049,789 at June 30, 2010.

#### **Litigation**

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

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

The District has entered into an agreement with several developers whereby the developers prepaid the terminal storage fee in order to provide the District with the funds necessary to build additional storage capacity. The agreement further allows the developers to relinquish all or a portion of such water storage capacity. If the District grants to another property owner the relinquished storage capacity, the District shall refund to the applicable developer \$746 per equivalent dwelling unit (EDU). There were 17,867 EDUs that were subject to this agreement. At June 30, 2009, 1,750 EDUs had been relinquished and refunded, 14,662 EDUs had been connected, and 1,455 EDUs have neither been relinquished nor connected. At June 30, 2010, 1,751 EDUs had been relinquished and refunded, 14,663 EDUs had been connected, and 1,453 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, 2010, 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 \$20,300 at the point of acceptance. Accordingly, the District did not accrue a liability as of year end.

### 11) RISK MANAGEMENT

#### **General Liability**

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. 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. Coverage limits range up to \$1 billion. 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.

#### **Workers' Compensation**

Through SDRMA, the District is insured up to \$200,000,000 for Statutory Workers' Compensation and \$5,000,000 for Employers' Liability coverage with no deductible. SDRMA currently has a pool of 348 agencies in the Workers' Compensation Program.

See independent auditors' report.



## Notes to Financial Statements Years Ended June 30, 2010 and 2009

### 11) RISK MANAGEMENT - Continued

#### 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, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Amount Expensed	\$ 2,404,530	\$ 1,340,110
Amount Capitalized as a Cost of Construction Projects	<u>510,115</u>	<u>1,353,153</u>
Total Interest	<u>\$ 2,914,6453</u>	<u>\$ 2,693,263</u>



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 13) SEGMENT INFORMATION

During the June 30, 2010 fiscal year, the District issued Revenue Bonds to finance certain capital improvements. While water and wastewater services accounted for in a single fund 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, 2010.

#### Condensed Statement of Net Assets

June 30, 2010

	<u>Water Service</u>
<b>ASSETS</b>	
Current Assets	\$ 126,774,856
Capital Assets	\$ 455,162,484
Other Assets	8,486,667
Total Assets	<u>590,424,007</u>
<b>LIABILITIES</b>	
Current Liabilities	23,980,259
Long-Term Liabilities	118,389,772
Total Liabilities	<u>142,370,031</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	362,311,370
Restricted for debt service	5,192,111
Unrestricted	80,550,495
Total Net Assets	<u>\$ 448,053,976</u>

See independent auditors' report.



# Notes to Financial Statements

## Years Ended June 30, 2010 and 2009

### 13) SEGMENT INFORMATION – Continued

#### Condensed Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2010

	<u>Water Services</u>
<b>OPERATING REVENUES</b>	
Water Sales	\$ 56,210,109
Connection and Other Fees	1,907,797
	<hr/>
Total Operating Revenues	58,117,906
	<hr/>
<b>OPERATING EXPENSES</b>	
Cost of Water Sales	39,338,495
Administrative and General	17,750,713
Depreciation	12,495,217
	<hr/>
Total Operating Expenses	69,584,425
	<hr/>
Operating Income (Loss)	(11,466,519)
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Investment Income	1,323,844
Taxes and Assessments	3,613,901
Availability Charges	618,806
Gain (loss) on Sale of Capital Assets	(143,086)
Miscellaneous Revenues	2,921,016
Donations	(100,240)
Interest Expense	(2,386,955)
Miscellaneous Expenses	(303,963)
	<hr/>
Total Non-operating Revenues (Expenses)	5,543,323
	<hr/>
Income (Loss) Before Capital Contributions	(5,923,196)
	<hr/>
Capital Contributions	8,948,920
	<hr/>
Changes in Net Assets	3,025,724
	<hr/>
Total Net Assets, Beginning	445,028,252
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Total Net Assets, Ending	\$448,053,976
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See independent auditors' report.



# Notes to Financial Statements

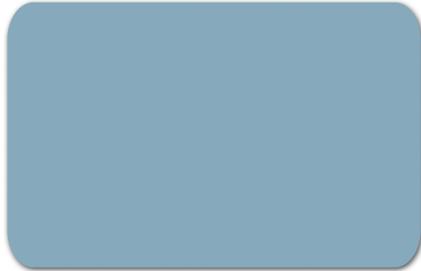
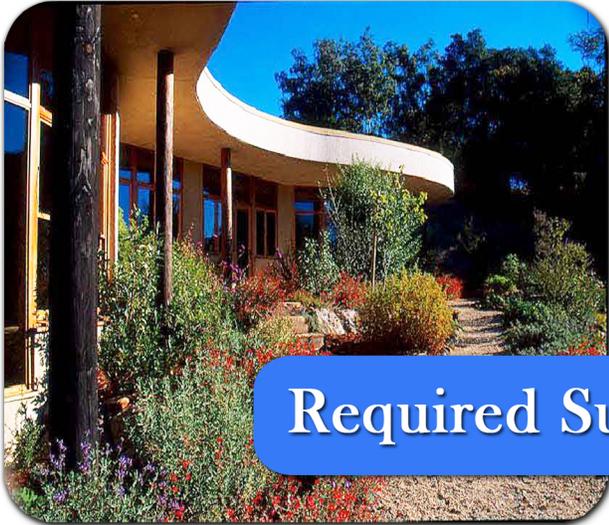
## Years Ended June 30, 2010 and 2009

### 13) SEGMENT INFORMATION – Continued

#### Condensed Statement of Cash Flows for the year ended June 30, 2010

	<u>Water Services</u>
Net Cash Provided by Operating Activities	\$ 4,856,836
Net Cash Provided by Non-capital and Related Financing Activities	4,747,692
Net Cash Provided by Capital and Related Financing Activities	25,787,143
Net Cash Used by Investing Activities	<u>(26,663,096)</u>
Net Increase in Cash and Cash Equivalents	8,728,575
Cash and Cash Equivalents, Beginning	<u>52,583,868</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 61,312,443</u></u>

See independent auditors' report.



Required Supplementary Information



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# Required Supplementary Information Years Ended June 30, 2010 and 2009

## 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]
6/30/08 Miscellaneous	\$ 49,712,016	\$ 65,542,736	\$ 15,830,720	75.8%	\$ 11,174,528	141.7%
6/30/07 Miscellaneous	\$ 44,910,326	\$ 59,412,116	\$ 14,501,790	75.6%	\$ 10,663,440	136.0%
6/30/06 Miscellaneous	\$ 40,321,483	\$ 54,228,041	\$ 13,906,558	74.4%	\$ 10,470,766	132.8%

## 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]
6/30/09 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%
6/30/07 Miscellaneous	\$ 0	\$ 11,408,000	\$ 11,408,000	0%	\$ 10,951,000	104.20%

See independent auditors' report.

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# Statistical

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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.

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	<b>58</b>
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the factors affecting the District's ability to generate its water, reclaimed, and sewer sales as well as property and sales taxes.	<b>64</b>
<b>Debt</b> These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	<b>72</b>
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.	<b>76</b>
<b>Operating Information</b> These schedules contain information about the District's operation and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.	<b>78</b>

### **Sources**

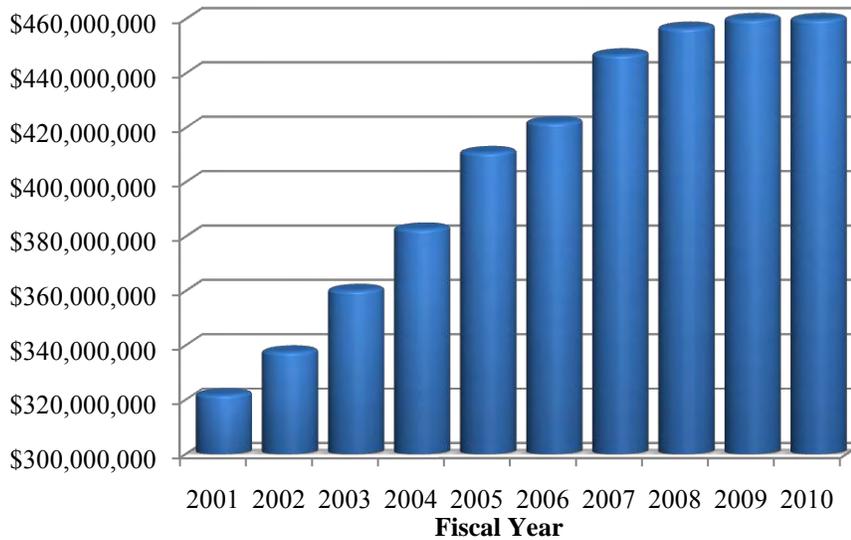
Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports of the relevant year. The District implemented GASB Statement 34 in 2001; schedules presenting government-wide information include information beginning in that year.



## Net Assets by Component Last Ten Fiscal Years

Fiscal Year	Invested in Capital Assets Net of Related Debt	Restricted	Unrestricted	Total Net Assets
2010	\$ 377,855,787	\$ 5,192,111	\$ 80,204,428	\$ 463,252,326
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
2002	245,290,752	46,866,439	45,580,508	337,737,699
2001	237,230,807	42,923,480	41,854,311	322,008,598

### TOTAL NET ASSETS



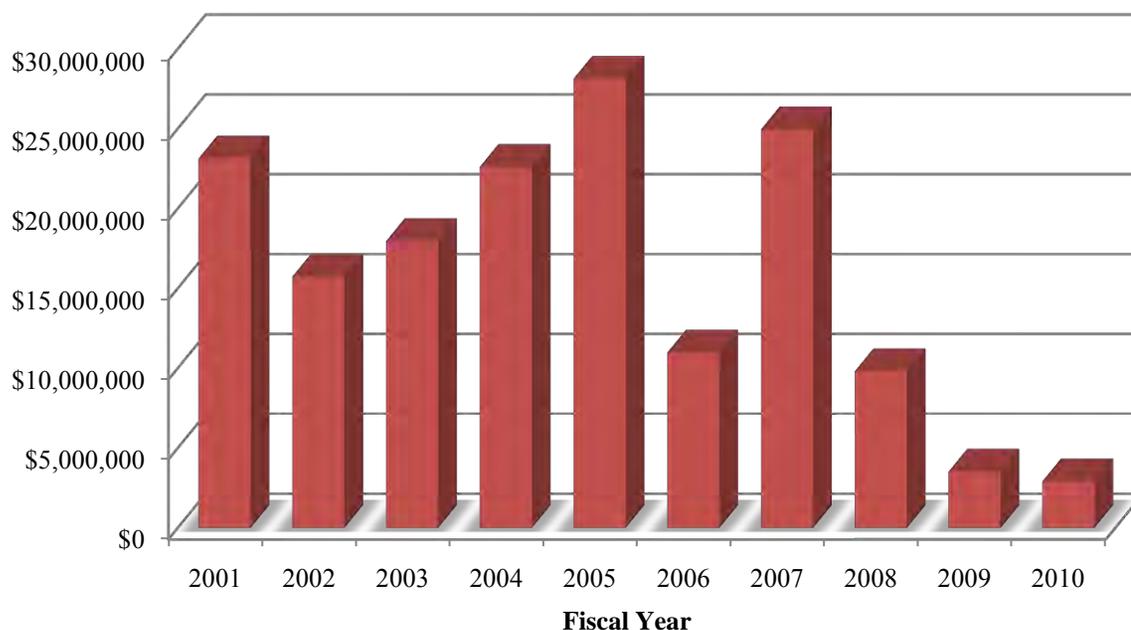
*Source: Otay Water District*



## Changes in Net Assets Last Ten Fiscal Years

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income	Total			Change in Net Assets
				Non-Operating Revenues/ (Expenses)	Income (Loss) Before Capital Contributions	Capital Contributions	
2010	\$60,457,198	\$72,556,693	\$ (12,099,495)	\$ 5,937,575	\$ (6,161,920)	\$ 9,069,375	\$ 2,907,455
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
2002	37,312,385	43,509,038	(6,196,653)	6,193,303	(3,350)	15,732,451	15,729,101
2001	22,598,438	40,203,049	(17,604,611)	10,526,110	(7,078,501)	30,209,604	23,131,103

### CHANGES IN NET ASSETS



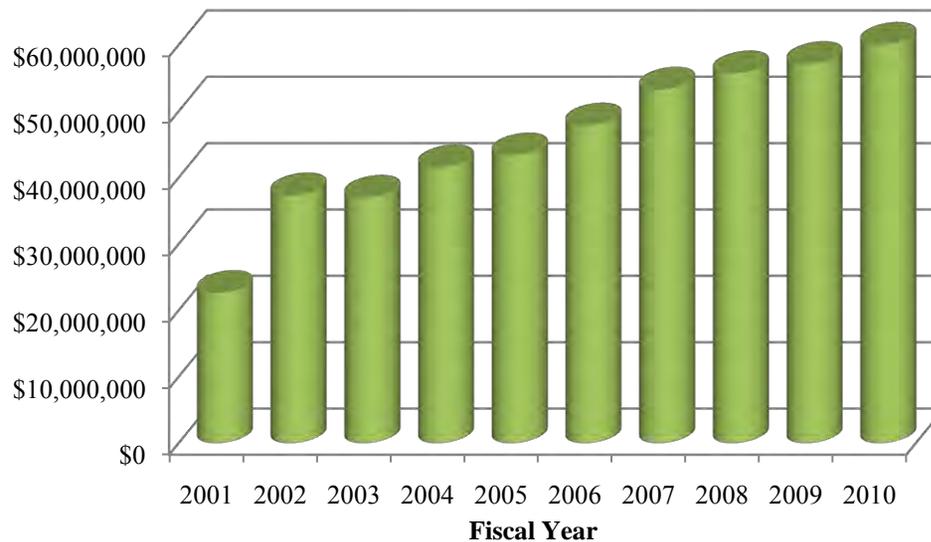
Source: Otay Water District



## Operating Revenues by Source Last Ten Fiscal Years

Fiscal Year	Water Sales	Wastewater Revenue	Connection and Other Fees	Total	Percent Change
2010	\$ 56,249,816	\$ 2,299,585	\$ 1,907,797	\$ 60,457,198	5.9%
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%
2002	34,980,289	2,031,855	300,241	37,312,385	65.1%
2001	20,645,462 (1)	1,578,581	374,395	22,598,437	-31.5%

### TOTAL OPERATING REVENUES



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

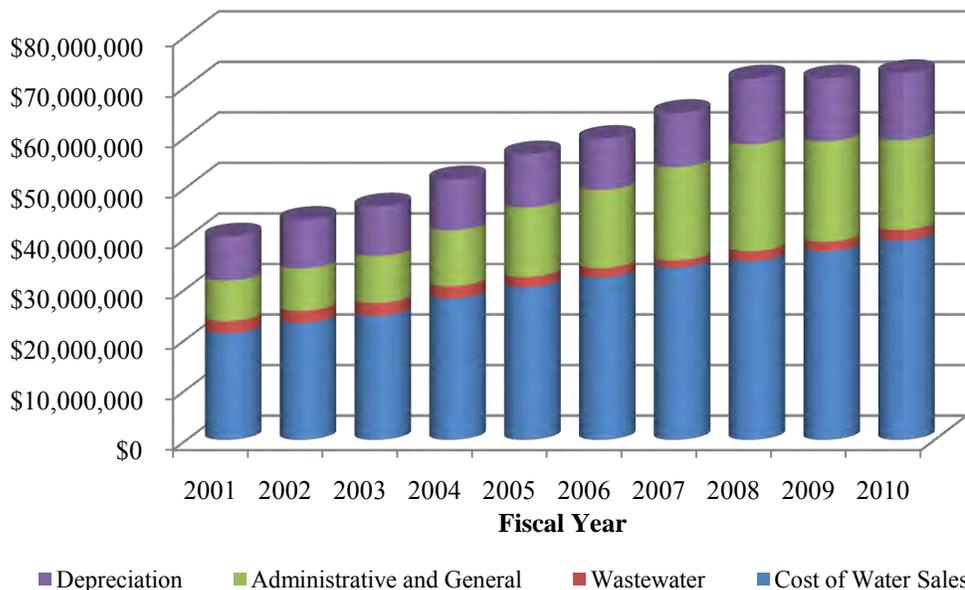
*Source: Otay Water District*



## Operating Expenses by Function Last Ten Fiscal Years

<u>Year</u>	<u>Water Sales</u>	<u>Wastewater</u>	<u>Administrative and General</u>	<u>Depreciation</u>	<u>Total</u>	<u>Percent Change</u>
2010	\$ 39,338,495	\$ 2,169,988	\$ 17,750,713	\$ 13,297,497	\$ 72,556,693	1.47%
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%
2002	23,070,355	2,404,720	8,388,045	9,645,918	43,509,038	8.2%
2001	20,998,534	2,447,034	8,014,245	8,743,236	40,203,049	9.5%

### OPERATING EXPENSES



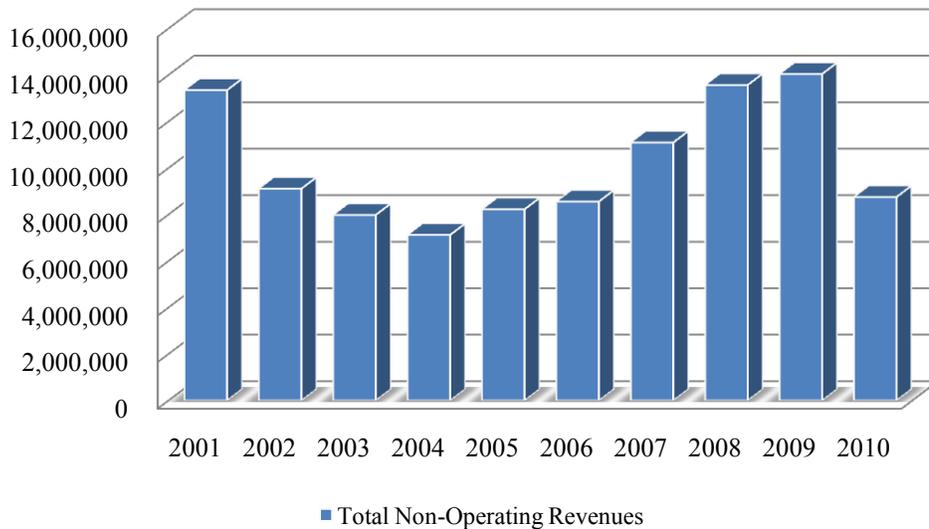
Source: Otay Water District



## Non-Operating Revenues by Source Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Investment Income</u>	<u>Taxes and Assessments</u>	<u>Availability Charges</u>	<u>Miscellaneous</u>	<u>Total</u>	<u>Percent Change</u>
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%
2002	4,466,383	2,381,170	1,052,222	1,207,920	9,107,695	-31.8%
2001	7,606,185	3,054,917	1,116,084	1,568,874	13,346,060	24.7%

### TOTAL NON-OPERATING REVENUES



- (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.

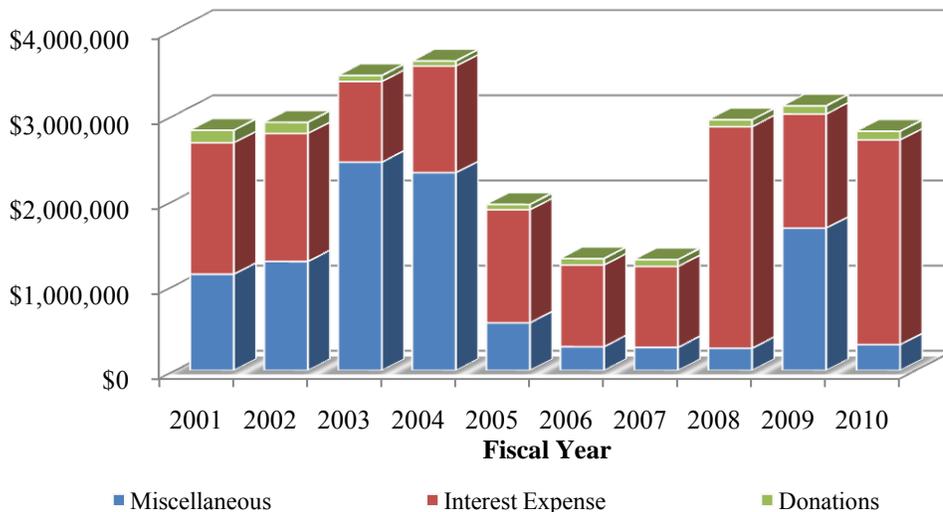
*Source: Otay Water District*



## Non-Operating Expenses by Function Last Ten Fiscal Years

Fiscal Year	Donations (1)	Interest Expense	Miscellaneous	Total	Percent Change
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%
2002	131,225	1,503,063	1,280,104	2,914,392	3.3%
2001	145,500	1,543,336	1,131,114	2,819,950	-6.8%

### NON-OPERATING EXPENSES



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

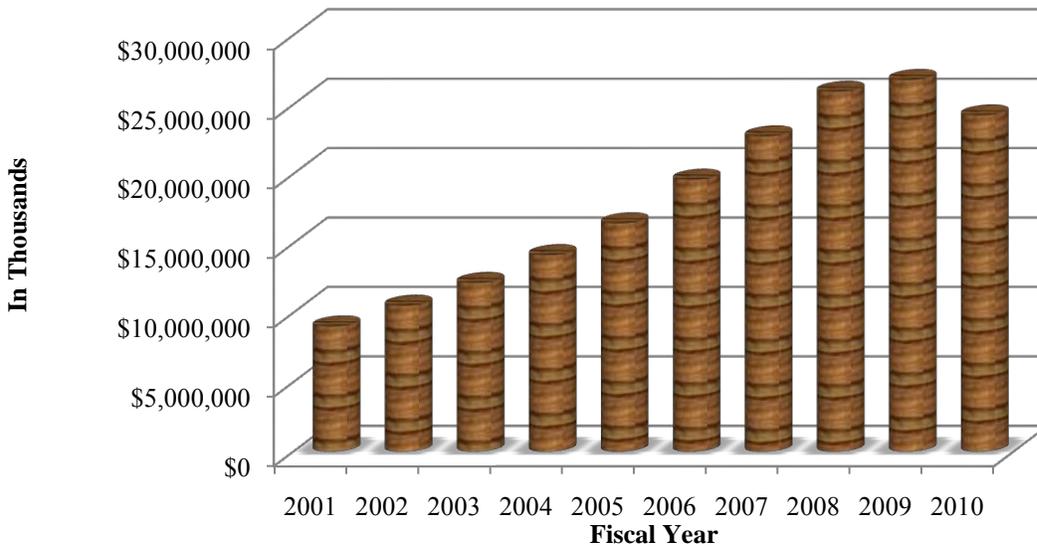
Source: Otay Water District



## Assessed Valuation of Taxable Property Within the District Last Ten Fiscal Years

Fiscal Year	Secured	Unsecured	Total	Percent Change
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%
2002	10,239,985,732	249,933,698	10,489,919,430	16.67%
2001	8,767,643,482	223,676,433	8,991,319,915	9.33%

### ASSESSED VALUATION OF PROPERTY



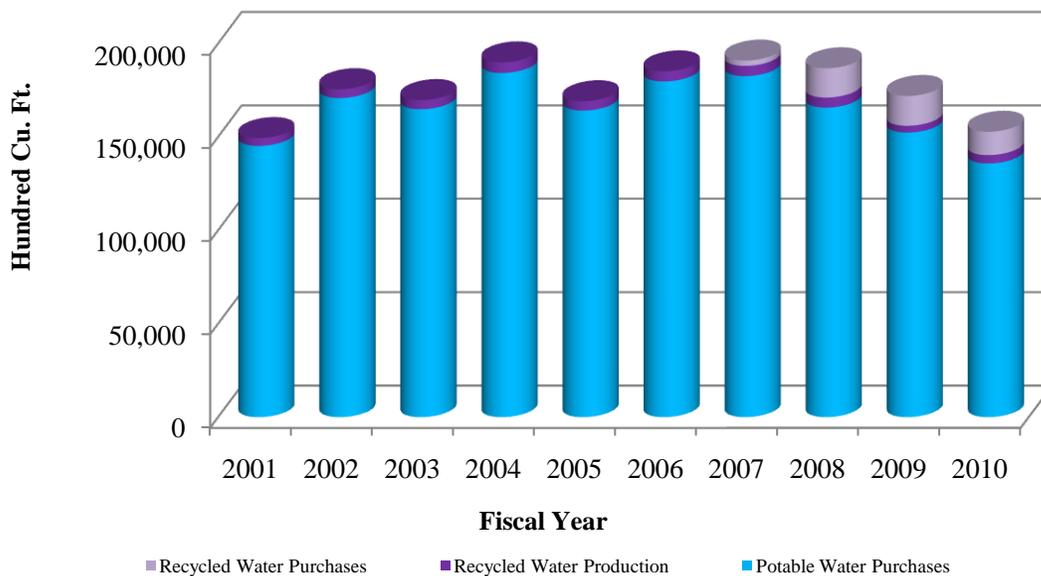
*Source: County of San Diego Auditor and Controller*



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

Fiscal Year	Potable Water <sup>(1)</sup>		Recycled Water <sup>(1)</sup>		
	Per 100 Cubic Feet		Production	Per 100 Cubic Feet	
	Purchases	Sales		Purchases	Sales
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 <sup>(2)</sup>	1,920,287
2006	17,972,146	14,723,988	537,400	-	1,722,057
2005	16,412,711	13,708,001	501,114	-	1,447,020
2004	18,424,007	14,711,176	568,589	-	1,492,453
2003	16,486,502	13,613,885	486,739	-	1,109,691
2002	17,084,537	13,723,241	471,581	-	1,000,007
2001	14,521,902	12,057,399	418,873	-	674,670

### POTABLE WATER PURCHASES AND RECYCLED WATER PRODUCTION



(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 69-70 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.

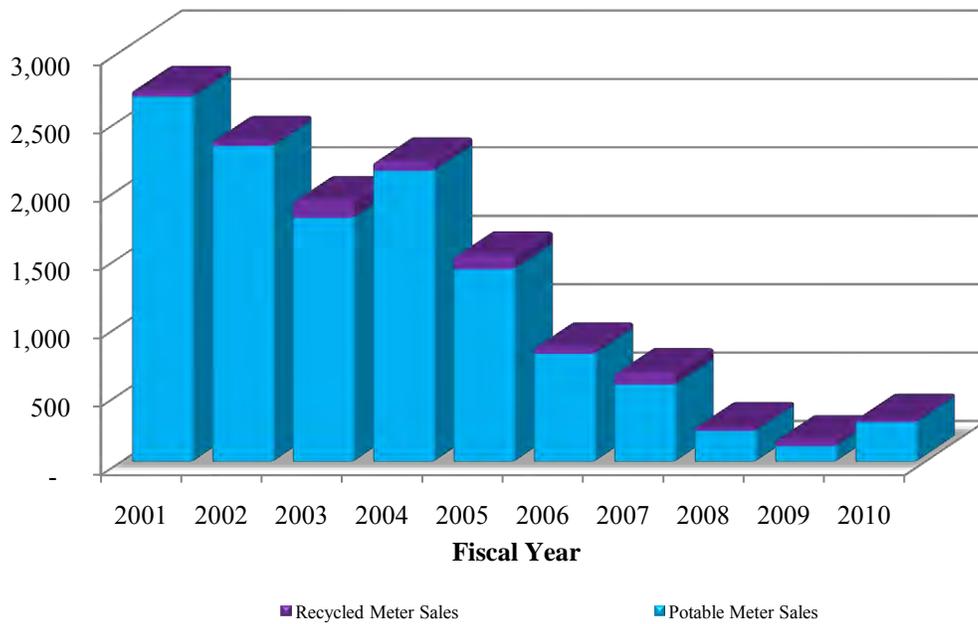
*Source: Otay Water District*



## Meter Sales by Type Last Ten Fiscal Years

Fiscal Year	Potable	Recycled	Total
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
2002	2,308	33	2,341
2001	2,667	43	2,710

### METER SALES



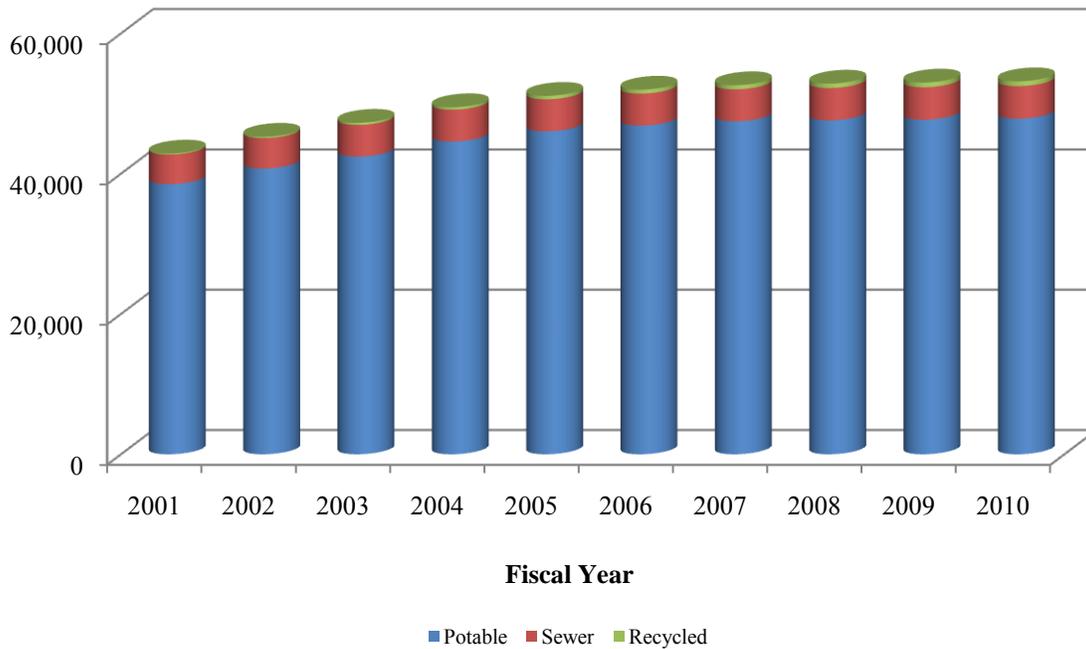
*Source: Otay Water District*



## Number of Customers by Service Type Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Potable</u>	<u>Recycled</u>	<u>Sewer</u>	<u>Total</u>
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
2002	40,732	189	4,342	45,263
2001	38,502	128	4,240	42,870

### NUMBER OF CUSTOMERS



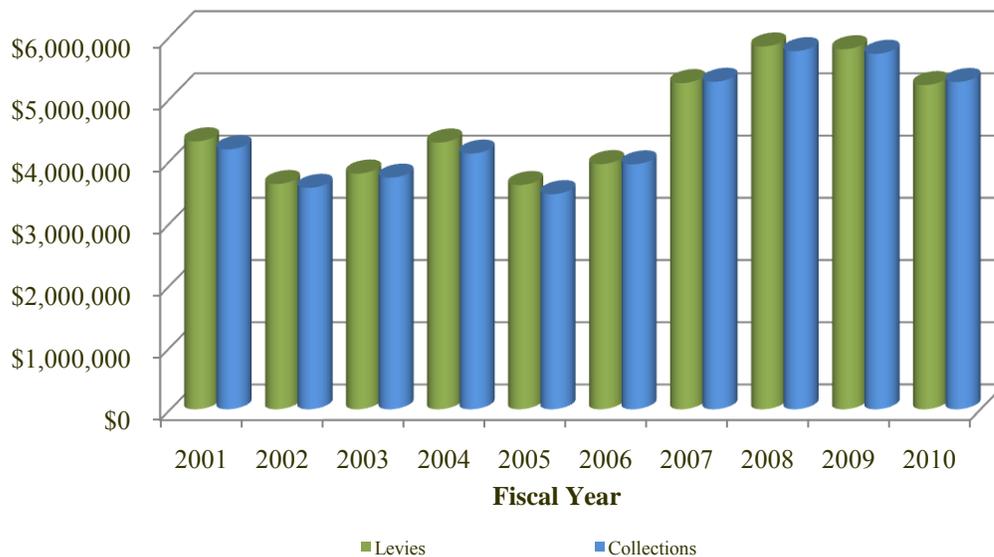
*Source: Otay Water District*



## Property Tax Levies and Collections Last Ten Fiscal Years

Fiscal Year	LEVIES <sup>(1)</sup>			Total Collections <sup>(1)</sup>	Net Change in Receivable	Percent Collected
	1% Property Tax	Special Assessments	Total Levies			
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%
2002	1,314,354	2,305,191	3,619,545	3,558,105	61,440	98%
2001	1,134,675	3,171,206	4,305,882	4,176,331	129,551	97%

### LEVIES AND COLLECTIONS



(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

<u>System Fee (Meter Size)</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b><u>Residential</u></b>										
3/4"	\$ 14.58	\$ 13.83	\$ 12.30	\$ 11.30	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25
1"	18.52	17.56	19.80	18.15	16.50	16.50	16.50	16.50	16.50	16.50
1.5"	28.37	26.90	51.95	35.75	32.50	32.50	32.50	32.50	32.50	32.50
<b><u>Non-Residential &amp; Others</u></b>										
3/4"	14.58	13.83	24.00	22.00	20.00	20.00	20.00	20.00	20.00	20.00
1"	18.52	17.56	36.95	33.90	30.80	30.80	30.80	30.80	30.80	30.80
1.5"	28.37	26.90	51.95	47.50	43.30	43.30	43.30	43.30	43.30	43.30
2"	40.18	38.10	64.95	59.60	54.20	54.20	54.20	54.20	54.20	54.20
3"	71.68	67.98	104.55	95.90	87.20	87.20	87.20	87.20	87.20	87.20
4"	107.13	101.59	119.70	109.80	99.80	99.80	99.80	99.80	99.80	99.80
6"	205.59	194.96	239.20	219.45	199.50	199.50	199.50	199.50	199.50	199.50
8"	323.73	307.00	-	-	-	-	-	-	-	-
10"	461.57	437.71	456.60	418.90	380.50	380.50	380.50	380.50	380.50	380.50
<b><u>CWA and MWD Pass-through charges (Meter Size)</u></b>										
<b><u>Residential</u></b>										
3/4"	9.77	4.33	3.85	3.55	2.85	2.50	2.00	1.00	1.00	1.00
1"	16.28	6.91	6.15	5.65	4.55	4.00	3.20	1.60	1.60	1.60
1.5"	32.61	13.04	11.60	10.65	8.55	7.50	6.00	3.00	3.00	3.00
<b><u>Non-Residential &amp; Others</u></b>										
3/4"	9.77	4.33	3.85	3.55	2.85	2.50	2.00	1.00	1.00	1.00
1"	16.28	6.91	6.15	5.65	4.55	4.00	3.20	1.60	1.60	1.60
1.5"	32.61	13.04	11.60	10.65	8.55	7.50	6.00	3.00	3.00	3.00
2"	52.15	22.54	20.05	18.45	14.80	13.00	10.40	5.20	5.20	5.20
3"	104.30	41.53	36.95	34.05	27.35	19.20	9.60	9.60	9.60	9.60
4"	162.98	70.98	63.15	58.20	46.75	41.00	16.40	16.40	16.40	16.40
6"	325.92	129.82	115.50	106.45	85.50	75.00	30.00	30.00	30.00	30.00
8"	521.51	374.62	-	-	-	-	-	-	-	-
10"	749.61	538.52	300.30	276.75	222.30	195.00	78.00	78.00	78.00	78.00
<b><u>Fire Services</u></b>										
All Types	30.11	28.55	25.40	23.30	21.20	21.20	21.20	21.20	21.20	21.20
Sewer Rates	36.88	33.26	32.70	30.90	26.90	23.35	20.95	20.95	20.95	20.95

Source: Otay Water District



## Water and Sewer Variable Rates Last Ten Fiscal Years

Usage Rate <sup>(1)</sup>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b><u>Residential:</u></b>										
Tier 1	\$ 1.35	\$ 1.12	\$ 1.12	\$ 1.08	\$ 1.05	\$ 1.01	\$ 1.01	\$ 1.01	\$ 1.01	\$ 1.01
Tier 2	2.10	1.74	1.85	1.78	1.73	1.67	1.67	1.67	1.67	1.67
Tier 3	2.73	2.26	2.01	1.94	1.88	1.81	1.81	1.81	1.81	1.81
Tier 4	4.21	3.48	2.94	2.83	2.75	2.65	2.13	2.13	2.13	2.13
Tier 5	-	-	-	-	-	-	2.65	2.65	2.65	2.65
<b><u>Master Meter:</u></b>										
Tier 1	2.08	1.72	1.85	1.78	1.73	1.67	1.78	1.78	1.78	1.78
Tier 2	2.70	2.23	2.01	1.94	1.88	1.81	-	-	-	-
Tier 3	4.15	3.43	2.94	2.83	2.75	2.65	-	-	-	-
<b><u>Public Agency &amp; Commercial:</u></b>										
Publicly-Owned <sup>(2)</sup>			2.06	1.99	1.93	1.86	1.86	1.86	1.86	1.86
Commercial & Others			1.98	1.91	1.85	1.78	1.78	1.78	1.78	1.78
Government Fee <sup>(2)</sup>	0.29	0.29	0.28	-	-	-	-	-	-	-
Tier 1	2.22	1.84								
Tier 2	2.27	1.88								
Tier 3	2.31	1.91								
<b><u>Landscape, Agricultural &amp; Construction:</u></b> <sup>(3)</sup>										
Tier 1	3.02	2.50								
Tier 2	3.08	2.55								
Tier 3	3.14	2.60								
<b><u>Recycled:</u></b>										
Recycled (Commercial)			1.67	1.65	1.57	1.51	1.51	1.51	1.51	1.51
Recycled (Publicly-Owned) <sup>(2)</sup>			1.75	1.73	1.65	1.59	1.59	1.59	1.59	1.59
Tier 1	2.58	2.13								
Tier 2	2.62	2.17								
Tier 3	2.67	2.21								
<b><u>Energy Pumping Fee:</u></b>										
Per 100 cubic feet <sup>(4)</sup>	0.038	0.037	0.034	0.032	0.032	0.032	0.032	0.032	0.032	0.032
<b><u>Sewer Charges:</u></b>										
Residential Customers <sup>(5)</sup>	1.56	1.47	1.41	-	-	-	-	-	-	-

<sup>(1)</sup> 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.

<sup>(2)</sup> An additional fee per unit is charged to governmental customers, this is in lieu of tax revenues.

<sup>(3)</sup> Agricultural customers under the Special Agricultural Water Rate (SAWR) program shall receive a \$0.12 discount per hundred cubic feet (HCF).

<sup>(4)</sup> 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 \$.038 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.

<sup>(5)</sup> For residential sewer customers, effective January 1, 2008, a "Winter Average" fee structure was implemented for calculating the monthly sewer charge. A usage fee will be charged based on the prior year's "Winter Average" water consumption, reduced by a 15% usage discount, times a rate of \$1.56.

Source: Otay Water District



## Ten Largest Customers Current Year and Nine Years Ago

### FISCAL YEAR 2010

Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	\$ 2,218,584	3.9%
2. County of San Diego	Publicly Owned	943,132	1.7%
3. State of California	Publicly Owned	803,450	1.4%
4. Eastlake III Community Assoc	Construction (Potable, Temporary)	531,489	0.9%
5. Eastlake Summit Assoc	Construction (Potable, Temporary)	523,703	0.9%
6. Eastlake Country Club	Irrigation (Reclaimed, Permanent)	406,813	0.7%
7. Belleme HOA	Irrigation (Reclaimed)	397,621	0.7%
8. Chula Vista School District	Publicly Owned	377,411	0.7%
9. Cuyamaca College	Publicly Owned	354,666	0.6%
10. Sweetwater School District	Publicly Owned	348,083	0.6%
Total (10 Largest)		\$ 6,904,952	12.3%
Other Customers		\$ 49,344,864	87.7%
Total Water Sales		\$ 56,249,816	100.0%

### FISCAL YEAR 2004 (1)

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

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

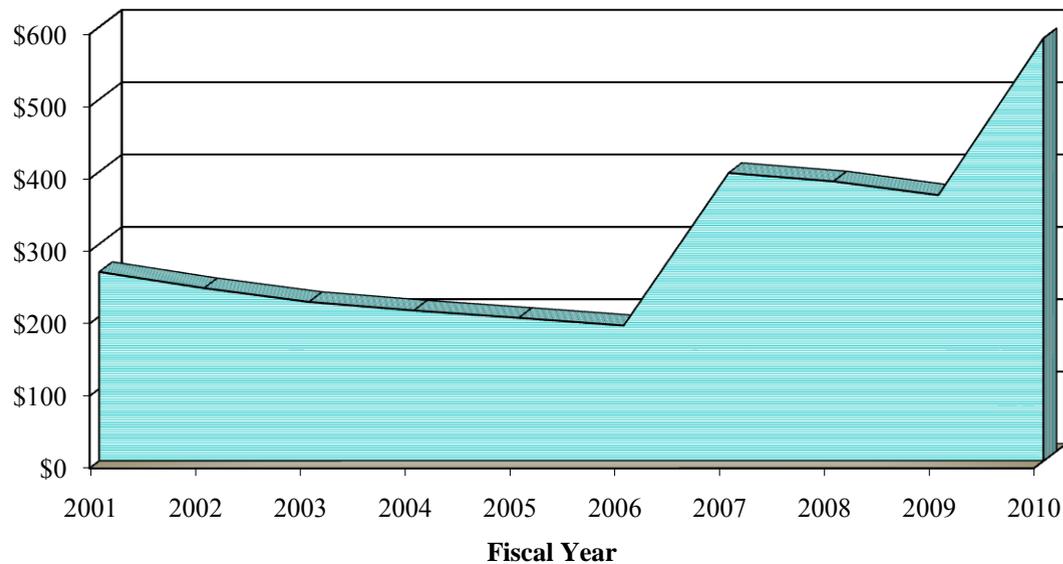
*Source: Otay Water District*



## Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year	Population Estimate	GO Bond	COPS	Revenue Bonds	Notes	Capital Leases	Total	Per Capita	As a Share of Personal Income (1)
2010	206,000	\$ 7,283,127	\$61,489,612	\$51,255,224	\$359,744	-	\$ 120,387,707	584.41	1.37%
2009	195,000	7,726,575	63,213,693	-	701,516	-	71,641,784	367.39	0.87%
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%
2002	166,000	9,953,664	26,915,166	-	2,791,295	-	39,660,125	238.92	0.69%
2001	156,000	10,210,392	27,517,093	-	3,050,841	-	40,778,326	261.40	0.77%

### OUTSTANDING DEBT PER CAPITA



(1) See the Demographics and Economic Statistics schedule on page 77 for personal income data.

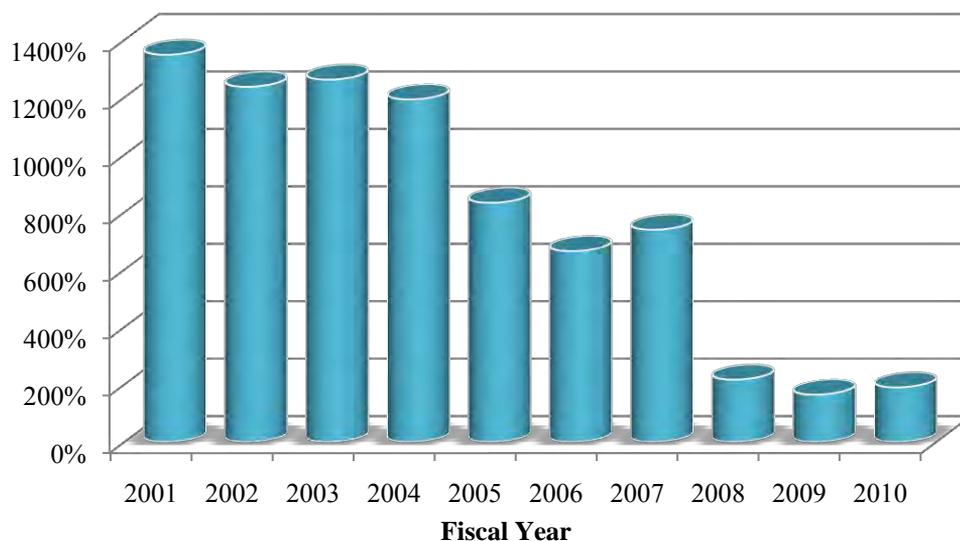
*Source: Otay Water District*



## Pledged Revenue Coverage Last Ten Fiscal Years

Fiscal Year	Adjusted Revenue (1)	Adjusted Operating Expense (2)	Net Revenue Available for Debt Service	(4) Debt Service Requirements			Coverage Factor (3)
				Principal	Interest	Total	
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%
2002	51,604,999	31,904,402	19,700,597	605,000	987,467	1,592,467	1,237%
2001	51,547,298	29,012,779	22,534,519	490,000	1,181,032	1,671,032	1,349%

### PLEGGED REVENUE COVERAGE



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

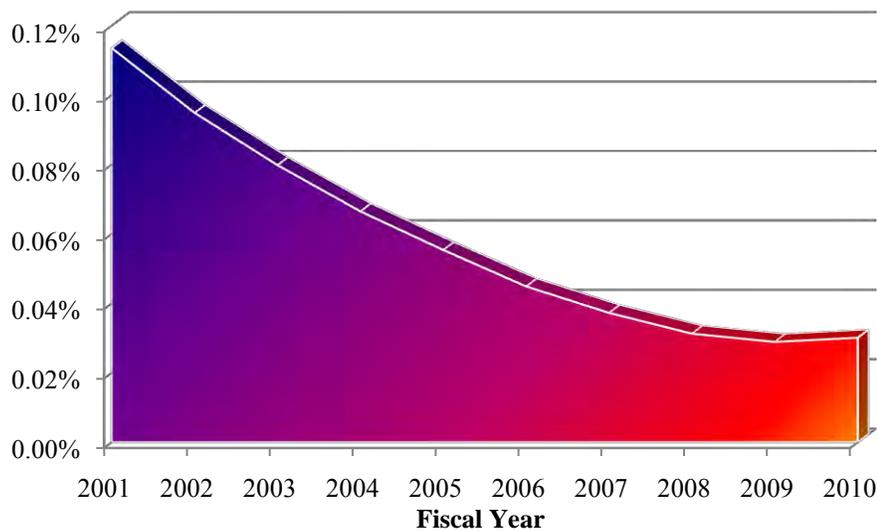
Source : Otay Water District



## Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Population Estimate</b>	<b>Assessed Valuation</b>	<b>Net Bonded Debt</b>	<b>Net Bonded Debt to Assessed Valuation</b>	<b>Net Bonded Debt Per Capita</b>
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
2002	166,000	10,489,919,430	9,953,664	0.09%	59.96
2001	156,000	8,991,319,915	10,210,392	0.11%	65.45

### BONDED DEBT RATIOS



*Source: Otay Water District*



# Computation of Direct and Overlapping Bonded Debt

## June 30, 2010

2009-10 Assessed Valuation:	\$ 24,198,816,700
Redevelopment Incremental Valuation:	274,456,533
Adjusted Assessed Valuation:	\$ 23,924,360,167

<b><u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>	Total Debt 6/30/2010	% Applicable (1)	District's Share of Debt 6/30/2010
Metropolitan Water District	\$ 264,220,000	1.319%	\$ 3,485,062
<b>Otay Municipal Water District Improvement District No. 27</b>	<b>7,780,000</b>	<b>100.000</b>	<b>7,780,000</b>
Grossmont-Cuyamaca Community College District	197,775,562	16.962	33,546,691
Southwestern Community College District	181,958,656	46.477	84,568,925
Grossmont Union High School District	309,143,431	17.509	54,127,923
Sweetwater Union High School District	343,709,415	55.639	191,236,481
Chula Vista City School District	78,430,000	64.158	50,319,119
San Ysidro School District	87,392,104	61.726	53,943,650
Other School Districts	2,296,985,494	Various	39,026,265
City of San Diego	4,340,000	1.200	52,080
Grossmont Healthcare District	85,627,076	15.478	13,253,359
City of Chula Vista Community Facilities District	231,885,000	100.	231,885,000
Chula Vista City School District Community Facilities Districts	6,430,000	100.	6,430,000
Sweetwater Union High School District Community Facilities Districts	190,875,131	2.523-100	177,111,322
City 1915 Act Bonds	56,408,690	37.539-100	47,358,410
California Statewide Communities Development Authority San Diego County/ Venture Community Center Assessment District	1,115,001	100.	1,115,001
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$ 995,239,288</b>

<b><u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u></b>			
San Diego County General Fund Obligations	\$ 415,240,000	6.871%	\$ 28,531,140
San Diego County Pension Obligations	853,514,739	6.871	58,644,998
San Diego Superintendent of Schools Certificates of Participation	21,187,500	6.871	1,455,793
<b>Otay Water District Certificates of Participation</b>	<b>61,890,000</b>	<b>100.000</b>	<b>61,890,000</b>
Grossmont and Southwestern Community College District General Fund Obligations	3,405,000	16.962 & 46.477	1,057,175
Grossmont Union High School District Certificates of Participation	1,342,500	17.509	235,058
Sweetwater Union High School District Certificates of Participation	10,480,000	55.639	5,830,967
Chula Vista City School District Certificates of Participation	143,025,000	64.158	91,761,980
San Ysidro School District Certificates of Participation	37,025,000	61.726	22,854,052
Other School District Certificates of Participation	15,695,000	Various	4,167,914
City of Chula Vista Certificates of Participation	139,700,000	72.721	101,591,237
City of Chula Vista Pension Obligations	4,980,000	72.721	3,621,506
City of San Diego General Fund Obligations	520,825,000	1.200	6,249,900
San Miguel Consolidated Fire Protection District Certificates of Participation	7,020,000	52.728	3,701,506
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$ 391,593,226</b>
Less: <b>Otay Water District Certificates of Participation (100% self-supporting)</b>			<b>61,890,000</b>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$ 329,703,226</b>
GROSS COMBINED TOTAL DEBT (2)			\$ 1,386,832,514
NET COMBINED TOTAL DEBT			\$ 1,324,942,514

(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 2009-10 Assessed Valuation:

Total Overlapping Tax and Assessment Debt	4.11%
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Ratios to Adjusted Assessed Valuation:

<b>Gross Combined Direct Debt (\$61,890,000)</b>	<b>26.00%</b>
<b>Net Combined Direct Debt</b>	<b>0.00%</b>
Gross Combined Total Debt	5.80%
Net Combined Total Debt	5.54%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

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



## Principal Employers Current Year and Nine Years Ago

<u>Employer</u>	<u>2010</u>			<u>2001</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>
Marine Corp Base, Camp Pendleton	60,000	1	4.26%	-	-	0.00%
Federal Government	43,500	2	3.09%	41,200	1	3.06%
State of California	40,900	3	2.91%	37,800	2	2.80%
United States Navy, San Diego	26,000	4	1.85%	-	-	0.00%
University of California, San Diego	26,000	5	1.85%	21,929	3	1.63%
County of San Diego	20,500	6	1.46%	18,600	4	1.38%
City of San Diego	19,500	7	1.39%	10,361	7	0.77%
San Diego Unified School District	15,881	8	1.13%	13,000	5	0.96%
Sharp Healthcare	14,390	9	1.02%	11,184	6	0.83%
Scripps Health	12,700	10	0.90%	9,950	8	0.74%
Scripps Mercy Hospital	11,000	-	0.78%	-	-	0.00%
Total	290,371		20.63%	164,024		12.16%

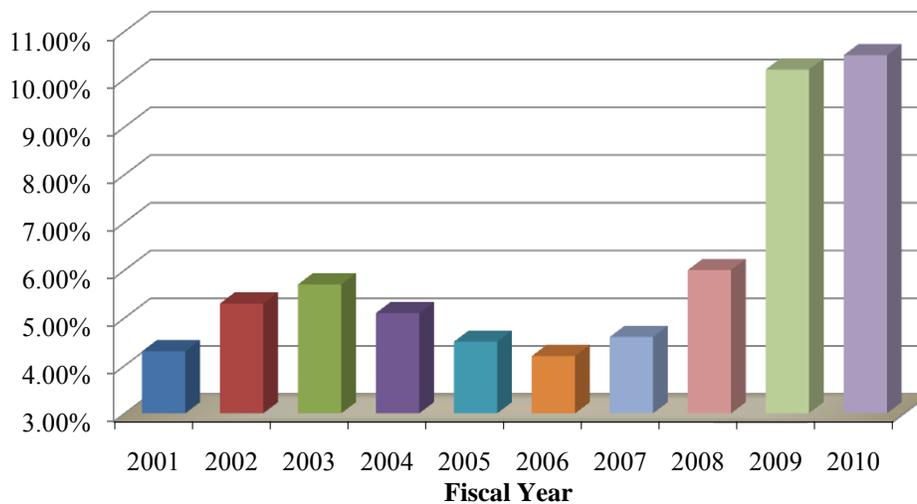
*Source: California Labor Market Info, The Daily Transcript, and San Diego Business Journal*



## Demographic and Economic Statistics Last Ten Fiscal Years

Year	Population	Personal Income (in 000'S)	Per Capita Personal Income	Unemployment Rate
2010	(1) 3,224,432	137,525,000	42,651	10.50%
2009	3,173,407	134,696,000	42,445	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%
2002	2,908,091	100,655,726	34,612	5.30%
2001	2,870,023	97,009,480	33,801	4.30%

### UNEMPLOYMENT RATE



(1) Forecast

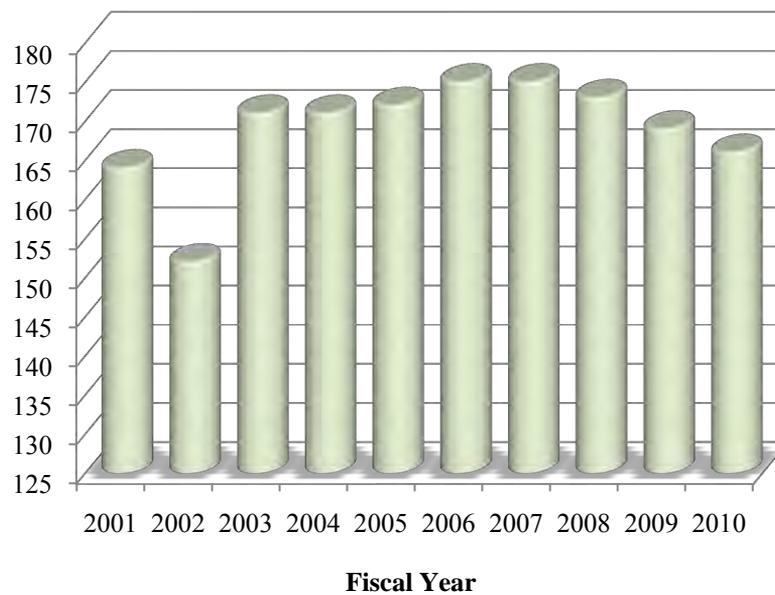
*Source: California Department of Finance; LAEDC-Los Angeles Economic Development Corp.  
The Kyser Center for Economic Research Employment Development Department; Labor Market Info*



## Number of Employees by Function Last Ten Fiscal Years

Department	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General Manager	6	6	6	6	6	6	4	4	3	6
Finance	38	37	36	35	34	34	33	32	32	33
Operations/Maintenance	68	70	71	71	72	71	70	70	71	73
Engineering	21	23	27	31	15	13	33	31	24	27
Administrative Services	20	20	20	19	19	20	21	24	16	19
IT and Strategic Planning	13	13	13	13	12	11	10	10	6	6
Development Services (1)	-	-	-	-	17	17	-	-	-	-
Total	<u>166</u>	<u>169</u>	<u>173</u>	<u>175</u>	<u>175</u>	<u>172</u>	<u>171</u>	<u>171</u>	<u>152</u>	<u>164</u>

### TOTAL EMPLOYEES



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

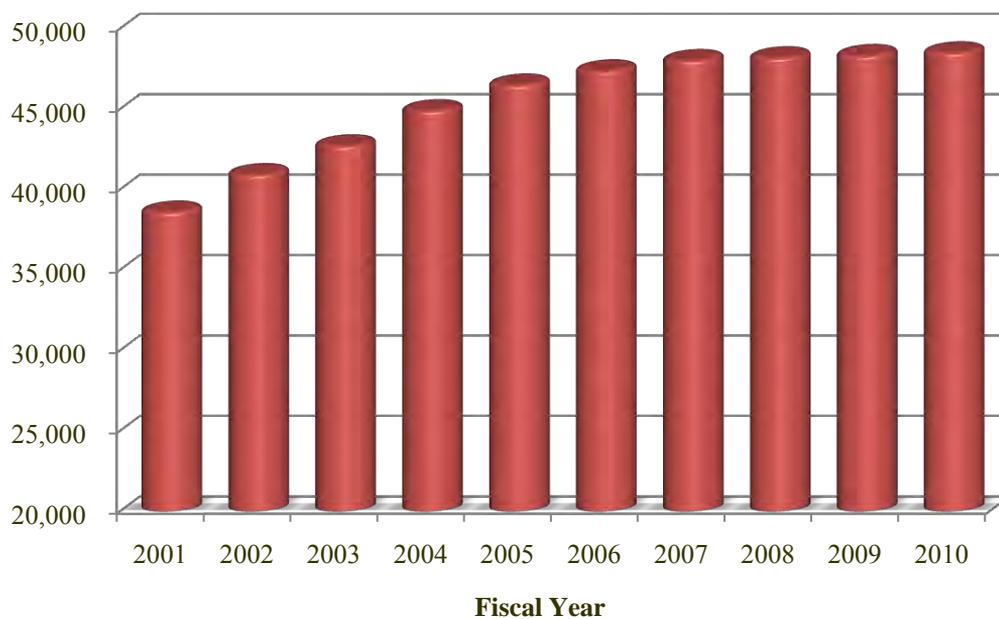
*Source : Otay Water District*



## Active Meters by Size Last Ten Fiscal Years

<b>Meter Size</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
3/4" & 5/8"	43,815	43,641	43,551	43,544	43,070	42,420	41,069	39,138	37,178	35,014
1"	1,815	1,804	1,747	1,618	1,514	1,364	1,220	1,132	1,110	1,079
1-1/2"	1,317	1,309	1,275	1,242	1,199	1,147	1,037	918	889	837
2"	1,292	1,299	1,283	1,262	1,242	1,199	1,168	1,140	1,124	1,084
3"	75	75	76	76	69	67	66	61	57	50
4"	184	202	258	275	277	289	329	308	526	496
6"	22	21	19	24	27	27	27	27	40	35
Others	8	9	10	7	11	12	15	26	35	35
<b>Total</b>	<b>48,528</b>	<b>48,360</b>	<b>48,219</b>	<b>48,048</b>	<b>47,409</b>	<b>46,525</b>	<b>44,931</b>	<b>42,750</b>	<b>40,959</b>	<b>38,630</b>
% Change	0.3%	0.3%	0.4%	1.3%	1.9%	3.5%	5.1%	4.4%	6.0%	7.0%
Increase	168	141	171	639	884	1,594	2,181	1,791	2,329	2,519

### ACTIVE METERS



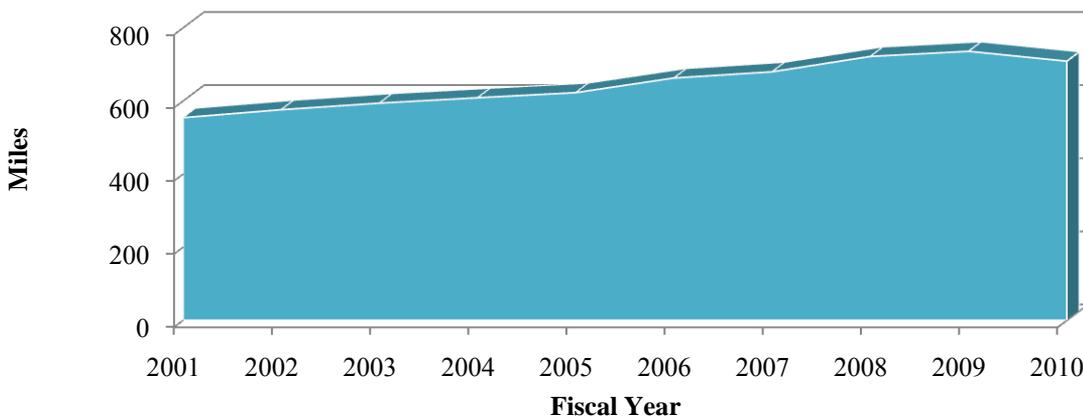
*Source : Otay Water District*



## Operating and Capital Indicators Last Ten Fiscal Years

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b><u>Water System</u></b>										
Service Area (Square Miles)	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5
Miles of Potable Water Main	709	736	722	680	663	623	609	594	576	554
Number of Operational Storage Reservoirs in Service	40	38	36	37	37	36	37	37	38	37
Water Storage Capacity (in Acre-Feet)	663.8	655.5	605.5	601.7	601.7	582.4	585.4	582.3	587.5	538.4
Total Water Connections (No. of Meters in Service)	48,074	48,522	48,376	47,615	47,409	46,525	44,931	42,750	40,959	38,630
Number of Pump Stations	23	24	24	24	22	21	21	21	21	20
Number of Potable Water Valves	19,522	19,192	19,131	18,721	18,042	17,696	16,204	15,830	15,073	14,296
<b><u>Sewer System</u></b>										
Miles of Sewer Lines	88.0	90.0	88.0	86.2	86.2	85.9	85.4	84.8	83.5	82.9
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Treatment Plant Capacity (Million Gallons per Day)	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total Flows for Fiscal Year 2010 (in Million Gallons)	474	483	503	514	528	506	479	463	455	452
<b><u>Recycled System</u></b>										
Miles of Recycled Water Mains	96.0	97.0	93.0	83.0	77.6	76.4	70.7	60.6	49.2	40.3
Number of Pumping Facilities	3	3	3	3	2	2	2	2	1	1
Number of Acre-Feet Storage	134.1	133.2	135.0	134.1	97.3	97.3	97.3	97.3	86.9	86.9
Number of Recycled Water Valves	1,380	1,338	1,314	1,245	1,189	1,155	1,097	948	730	588

### MILES OF POTABLE WATER MAINS



Source : Otay Water District