

Otay Water District



Comprehensive Annual Financial Report
for the years ended June 30, 2014 and 2013

Spring Valley, CA



Otay Water District

Comprehensive Annual Financial Report

for the years ended June 30, 2014 and 2013

BOARD OF DIRECTORS

Jose Lopez, Division 4	President
David Gonzalez, Jr., Division 1	Vice President
Mitchell Thompson, Division 2	Treasurer
Gary Croucher, Division 3	
Mark Robak, Division 5	

DISTRICT FINANCIAL MANAGEMENT

Mark Watton	General Manager
German Alvarez	Assistant General Manager
Joseph R. Beachem	Chief Financial Officer

PREPARED BY

Finance Department

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

October 22, 2014

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, 2014.

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

The District's financial statements have been audited by Teaman, Ramirez & Smith Inc. a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2014, 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. In the independent auditors' opinion, the following District's financial statements present fairly, in all material respects, the respective financial position of the Otay Water District as of June 30, 2014 and are presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

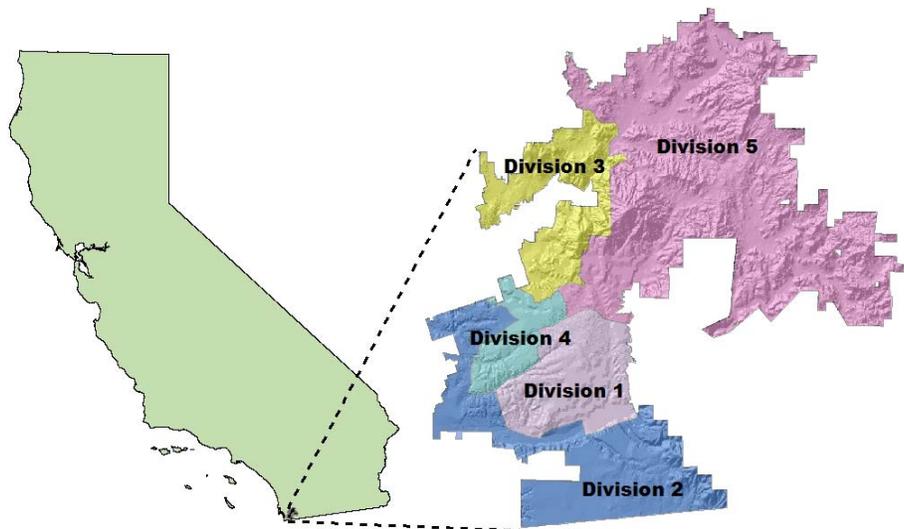
REPORTING ENTITY

The District is a publicly-owned water and sewer agency, authorized on January 27, 1956 as a California special district by the State Legislature, with an entitlement to import water under the provisions of the Municipal Water District Act of 1911. Its ordinances, policies, taxes, and rates for service are set by five Directors, elected by voters in their respective divisions, to serve staggered four-year terms on its Governing Board. The District is a “revenue neutral” public agency, meaning that each end-user pays only their fair share of the District’s costs of water acquisitions, construction, operation, maintenance, betterment, renewal, and replacement of the public water and sewer facilities.

The General Manager reports directly to the Board of Directors and, through the Assistant General Manager and the District management, oversee day-to-day operations. The Assistant General Manager oversees the five departments of Administrative Services, Finance, Information Technology and Strategic Planning, Water Operations, and Engineering. These and other lines of reporting are shown on the organization chart on [page 10](#).

Over the last 58 years, the District has grown from a handful of customers and two employees to become an organization operating a network of more than 916 miles of pipelines, 44 operational reservoirs, a reclaimed water facility, and one of the largest recycled water distribution networks in the State of California. The character of the service area has also changed from predominantly dry-land farming and cattle ranching, to businesses, high-tech industries, and large master-planned communities.

Today the District provides water service to approximately 49,260 potable and 713 recycled customers within 125.5 square miles of the southeastern San Diego metropolitan area. All of the potable water sold to customers is purchased through the San Diego County Water Authority (CWA). Much of this water is purchased from the region’s water



importer, the Metropolitan Water District of Southern California (MWD), or Imperial Irrigation District. The District also has entered into an agreement to purchase treated water from CWA

directly and from Helix Water District via contract with CWA. These actions have brought regional water treatment closer to our customers and helped reduce dependence on water treatment facilities located outside of San Diego County.

To deliver this locally treated water to customers, the District constructed a 5.1 mile, 36-inch diameter pipeline in 2010. Drinking water delivered by this new pipeline is stored in two 10 million gallon reservoirs. In addition to bringing water treatment closer to customers, this new source of water diversifies the District's supply and improves reliability.

927-1 Recycled Water Reservoir Cover and Liner Replacement



The District also owns and operates a wastewater collection and recycling system providing public sewer service to approximately 4,679 customer accounts within portions of the communities of La Mesa, Rancho San Diego, El Cajon, Jamul, and Spring Valley. Wastewater collected is conveyed to the District's Ralph W. Chapman Water Recycling Facility (RWCWRF), which is capable of recycling wastewater at a rate of 1.3 million gallons per day. The District also has the capability

to purchase up to 6 million gallons per day of recycled water from the City of San Diego's South Bay Reclamation Plant. Recycled water from these two sources is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The use of recycled water reduces dependency on imported supplies and provides a local supply, thereby diversifying District resources.

MISSION, CURRENT ECONOMIC CONDITIONS, AND OUTLOOK

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

As with the past few years, we continue to face numerous challenges with the large economic slowdown however, this slowdown appears to have leveled off as the District's Public Services Division approved on average 16 permits per month, and sold 195 water meters in fiscal 2013-2014. The coming years will continue to pose challenges for those in California's water community. It is uncertain if the challenges facing the Sacramento-San Joaquin Bay Delta, the source of 30% of Southern California's water supply, will be addressed. The passage of Proposition 1 will fund critical investment in regional water supply solutions including recycling and desalination. These constraints are being actively addressed by the State Water Project and the Bay Delta

Conservation Plan as a part of California's overall water management portfolio. It is being developed as a 50-year habitat conservation plan with the goals of restoring the Sacramento-San Joaquin delta ecosystem and securing California water supplies. In addition, weather and rainfall always bring a level of uncertainty to the delivery of water to customers in the arid southwestern states. California is experiencing an unprecedented drought due to three years of lower than anticipated rainfall. In response, Governor Brown declared a statewide drought emergency conservation regulations. On July 15, 2014, the State Water Resources Board, in response to continued drought conditions, set forth emergency conservation regulations. The combination of these factors add to the cost of providing a stable supply of water as water providers look to new and more costly sources of water.

Growth in San Diego County has slowed over the last four years, but is now expected to gradually improve. The population within the District's service area continues to increase, albeit at a reduced rate. As of July 2014, it is estimated that the District served 213,000 residents. The San Diego Association of Governments (SANDAG), the regional planning agency, has estimated the District's approximate growth will be 1.6% per year for the next decade. The District projects an ultimate customer population of 285,000 residents.

STRATEGIC PLAN

The Strategic Plan is the core document which guides the District's efforts to meet and positively adapt to change. Every three years the District engages in a major revision of its Strategic Plan. The current plan (covering fiscal years 2015 – 2018) will take the District through its 16th year of strategic planning.

The Strategic Plan is focused on the District's transformation from a growth-centric to a maintenance-based organization. Where growth has been a significant focus in prior years, today we have become equally focused in managing long-term maintenance and replacement of our infrastructure. Performance metrics and targets are a critical element of the Strategic Plan but differ from Strategic Plan objectives. Objectives identify the action items that are necessary to achieve the strategic vision. Performance metrics are designed to ensure the day-to-day operations of the utility are meeting agreed-upon expectations. Both performance metrics and objectives are revised from the prior year, updated quarterly, and reviewed by the Board on a semi-annual basis.

Our key District challenge is to add increased value by improving our core business processes. From a water supply perspective, this means determining the optimum mix of water supply, treatment, and delivery solutions for our customers. From a daily operating perspective, efficiency improvements have become the primary source of competitive advantage and cost optimization for utilities. Adding value from this perspective means the entire team focusing on not only the

highest priority goals but also examining the details of what we do every day and be willing to alter how we do it if it makes a positive difference. Our employees voice a high degree of personal and professional satisfaction with our direction and the entire team is committed to meeting this key challenge with distinction.

BUDGETING CONTROLS

The District views the budget as an essential tool for proper financial management and is adopted prior to the start of each fiscal year. The budget is developed by combining the District's strategic objectives and measures with input from the various departments of the organization. By incorporating these strategic measures and objectives the budget becomes a direct reflection of the District's strategic plan. The budget 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, strategic objectives, and other useful information that allows the users to gain a general understanding of the District's financial status and future. To monitor the District's performance monthly comparison reports of budget to actual are prepared and distributed to all department heads, with top level information provided to the Board at the monthly board meetings.

BUDGET SUMMARY

The Otay Water District's operating expenditures consist of three major sectors: potable water, recycled water, and sewer. The total budget is \$91,640,000 for Fiscal Year 2015. Revenues from potable and recycled water are projected to be \$80,785,700, about \$5,412,100 (7.2%) more than the Fiscal Year 2014 budget. Water sales volumes are expected to increase by less than .7% versus FY 2014. This slight increase in volume is the net result of the economic recovery and conservation efforts. The remaining 6.5% increase is due to rate increases that are essential to keep pace with rising wholesale water costs. MWD and CWA water supply rate increased 7.7% due to high cost of supply programs, higher energy costs and increasing operating costs. Sewer revenues are projected to be \$3,007,700, about \$306,100 more than the Fiscal Year 2014. This increase, from higher sewer rates, is primarily to cover \$1.6 million of capital projects in Fiscal Year 2015. The remaining budgeted revenues of \$7.8 million come from various special fees, assessments, and miscellaneous income.



624-2 Reservoir Exterior

The 2014-15 Capital Improvement Program (CIP) budget consists of 73 projects and a budget of \$10.6 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 \$3.2 million compared to last year's projection. The decrease is due to the completion of some large projects and the deferment of several projects to match the timing of land development.

THE FUTURE

The coming years will continue to pose challenges for those in California's water community. For instance, the ongoing drought due to lower rainfall and the challenges facing the Sacramento-San Joaquin Bay Delta, the source of 30 percent of Southern California's water supply, are being addressed by the Bay Delta Conservation Plan (BDCP); however, the impact to end users has not been fully determined at this time. The District, as a member of the CWA, is well positioned for water coming from the Colorado River thanks to the Quantification Settlement Agreement (QSA). As the cost of water has increased to the retail customer, sales volumes have decreased. As one would expect, water sales reductions have impacted revenues and will continue to affect the District finances. However, these volume decreases have moderated as the economy continues to recover and the District is seeing slight increases in water volumes. Our success as an organization is significantly enhanced by the practices and policies put in place by the Board of Directors to ensure the strength and stability of the District. 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.

SAN DIEGO COUNTY WATER SUPPLY

San Diego County is a semi-arid region, local surface water and groundwater supplies comprise about 10 percent of the regional demand. With conservation and recycled water comprising 15 percent, the remaining 75 percent is imported from sources outside the region, including the Colorado River and Northern California. Since the Colorado River and Northern California sources face legal and environmental constraints the region has been exploring other ways to ensure adequate supply programs for the region, such as increased water storage, groundwater desalination, and seawater desalination.

CARLSBAD DESALINATION PROJECT

The District's water wholesaler, the San Diego County Water Authority, voted on November 29, 2012, to approve a water purchase agreement with Poseidon Resources Corporation (Poseidon). Under the water purchase agreement, the County Water Authority will purchase 48,000 to 56,000 acre-feet of water annually from the desalination plant located in Carlsbad, California. The plant is expected to produce up to 50 million gallons of water a day beginning in 2016 and will generate enough water to meet 7 percent of the region's demand. The total price for the desalinated water, including related upgrades to the County Water Authority's pipelines and treatment plant, is projected to start between \$2,014 and \$2,257 per acre-foot (in 2012 dollars). An acre-foot is approximately 325,900 gallons, or enough to supply two typical single-family households of four for a year.



ROSARITO DESALINATION AND THE OTAY MESA CONVEYANCE AND DISINFECTION SYSTEM PROJECTS

The Rosarito Desalination Project is comprised of a 100 million gallons per day seawater reverse osmosis desalination plant, together with a pump station and pipeline, to convey water to Tijuana and to the District. This will be the first cross-border water supply project of its kind and requires public messaging to inform key stakeholders and the public of the significance of the project. If successful, this project will start delivering water to the District customers by early 2018. The project includes the construction of facilities on the U.S. side to include a large diameter pipeline 3.5 miles long, a pump station, a disinfection facility and the use of the Roll Reservoir in Otay Mesa.



ACCOUNTING SYSTEM

The Finance Department is responsible for providing financial services to the District including financial accounting; reporting; payroll; accounts payable; investment of funds; billing and collection of water and wastewater charges; taxes; and other revenues. The District's books and records are maintained on an enterprise basis, matching revenues against the costs of providing

services. Revenues and expenses are recorded on the accrual basis in the period in which revenues are earned and expenses are incurred.

INTERNAL CONTROLS

Otay Water District operates within a system of internal controls established and periodically 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 also consider the cost of the control and the value of the benefit derived from its utilization. Management maintains and implements all sensitive controls, and those controls whose value adequately exceeds their cost.

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

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to Otay Water District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. This was the tenth consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

The Government Finance Officers Association of the United States and Canada (GFOA) presented a *Distinguished Budget Presentation Award* to Otay Water District, California for its annual budget for the fiscal year beginning July 1, 2013. In order to receive this award, a

governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Operating Budgeting for Fiscal Year 2013-2014*.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Capital Budgeting for Fiscal Year 2013-2014*.

Otay Water District has received the *District of Distinction* accreditation from the Special District Leadership Foundation (SDLF). By receiving this accreditation, the SDLF recognized Otay for demonstrating a strong commitment to practicing sound policies in the areas of governance, board conduct, District finances, transparency, reserve management, and continuing education for board members and staff. This is the first time Otay has received this biannual accreditation.

The Special District Leadership Foundation (SDLF) presented Otay Water District the *District Transparency Certificate of Excellence*. By completing the District Transparency Certificate of Excellence program, the District has proven its dedication to being fully transparent as well as open and accessible to the public and other stakeholders.

I would like to thank all of the staff involved for their efforts in preparing this Comprehensive Annual Financial Report and for their hard work to ensure a successful outcome. I would also like to thank the firm of Teaman, Ramirez & Smith, Inc., for their professional work and opinion.

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



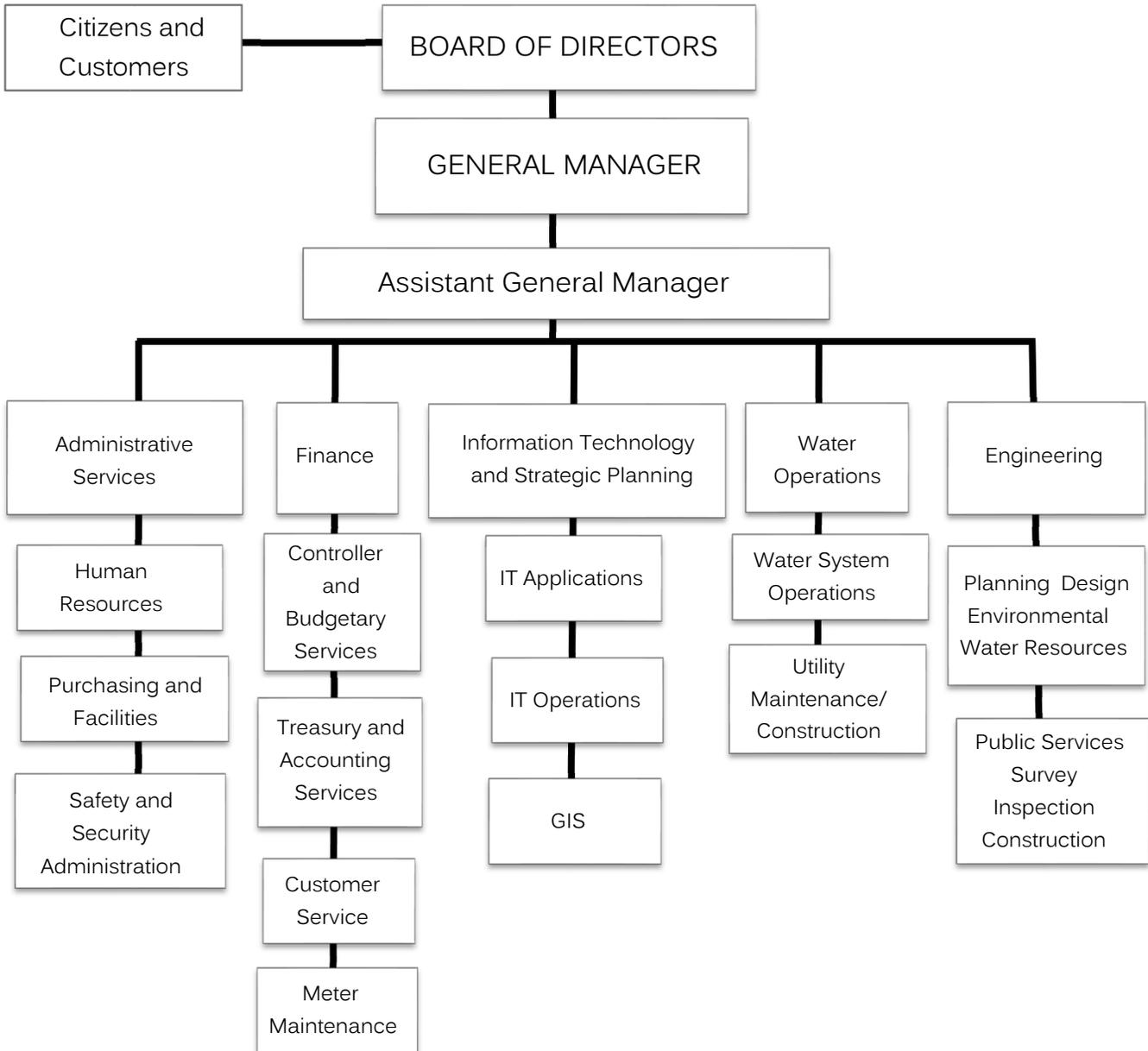
Joseph R. Beachem
Chief Financial Officer



Mark Watton
General Manager



Organization Chart



List of Principal Officials



Jose Lopez
President
Division 4



David Gonzalez, Jr.
Vice President
Division 1



Mitchell Thompson
Treasurer
Division 2



Gary Croucher
Division 3



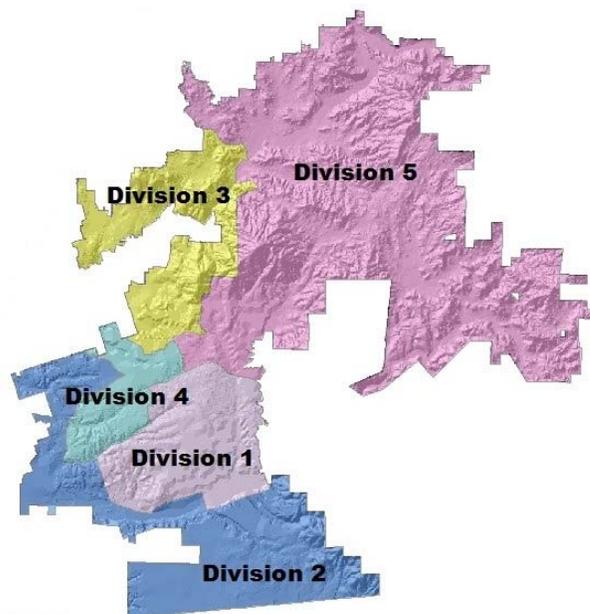
Mark Robak
Division 5

Board of Directors

The Otay Water District is a revenue-neutral public agency established in accordance with the California Water Code. This not-for-profit status means Otay has no private shareholders, pays no dividends and therefore does not report to, nor answer to the California Public Utilities Commission. The District does, however, answer to the public through a five-member Board of Directors. Each Director is elected by voters within their respective division boundaries to represent the public's interest with regard to rates for service, taxes, policies, ordinances, and other matters related to the management and operation of the Otay Water District. Directors serve four-year staggered terms on the Board.

Mission Statement

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



CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Otay Water District for its CAFR for the fiscal year ended June 30, 2013. This is the tenth year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the District had to publish an easily readable and comprehensive report. This report must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

This award is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements, and will be submitting it to GFOA to determine its eligibility for another certificate.



INDEPENDENT AUDITORS' REPORT

Board of Directors
Otay Water District
Spring Valley, California

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Otay Water District (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Otay Water District as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

Other Matters

Prior Period Financial Statements

The financial statements of the District as of June 30, 2013, were audited by other auditors whose report dated October 22, 2013, expressed an unqualified opinion on those statements. Additionally, those statements included an emphasis of matter paragraph describing the implementation of GASB standards and an other matter paragraph relating to required supplementary information and other information.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 16-22 and 64 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not required part of the basic financial statements.

The introductory and statistical sections 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that

testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Teaman Ramirez & Smith, Inc.

Riverside, California

October 22, 2014

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, 2014. 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 \$444.8 million (*net position*). Of this amount, \$83.0 million (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- Total assets decreased by \$5.7 million or 1.0% during Fiscal Year 2014, to \$576.6 million, due primarily to depreciation offset by investments in capital infrastructure, contributions and improved operating results.

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) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position, 3) Statements 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 *Statements of Net Position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net positions may serve as a useful indicator of whether the financial position of the District is improving or weakening.

The *Statements of Revenues, Expenses and Changes in Net Position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net positions 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 *Statements 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.

Management's Discussion and Analysis

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

Financial Analysis:

As noted, net position may serve, over time, as a useful indicator of an entity's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$444.8 million at the close of the most recent fiscal year.

By far the largest portion of the District's net position, \$357.9 million (80%), reflects its investment in capital assets, less any remaining outstanding debt used to acquire those assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported effectively as a resource, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statements of Net Position (In Millions of Dollars)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Current and Other Assets	\$ 109.9	\$ 106.3	\$ 109.9
Capital Assets	<u>466.7</u>	<u>476.0</u>	<u>480.8</u>
Total Assets	<u>576.6</u>	<u>582.3</u>	<u>590.7</u>
Deferred Outflows of Resources			
Deferred Amount on Refunding	<u>0.1</u>	<u>0.4</u>	<u>0.0</u>
Total Deferred Outflows of Resources	<u>0.1</u>	<u>0.4</u>	<u>0.0</u>
Liabilities			
Long-Term Debt Outstanding	105.3	109.0	112.0
Other Liabilities	<u>26.6</u>	<u>25.5</u>	<u>24.6</u>
Total Liabilities	<u>131.9</u>	<u>134.5</u>	<u>136.6</u>
Net Position			
Net Investment in Capital Assets	357.9	376.5	381.7
Restricted for Debt Service	3.9	4.6	4.7
Unrestricted	<u>83.0</u>	<u>67.1</u>	<u>67.7</u>
Total Net Position	<u>\$ 444.8</u>	<u>\$ 448.2</u>	<u>\$ 454.1</u>

Management's Discussion and Analysis

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 Position is indicative of the reduction in new development projects within the District. This reduction is a result of the ongoing national housing slump and slow recovery from financial crisis.

In FY-2014 the District has fully used the remainder of the \$51.2 million proceeds from the issuance of its 2010 Water Revenue Bonds program (See [Note 4](#) in the Notes to Financial Statements) for its CIP program (See [Note 3](#) in the Notes to Financial Statements) as seen by the increase in Capital Assets of \$3.4 million before accumulated depreciation. The District also saw a decrease in Long-Term Debt of \$3.7 million due to the annual payments of long-term debt.

Certain planning and environmental study costs associated with capital projects such as the Otay Mesa Desalination and Disinfection System or San Miguel Habitat Management/Mitigation Area do not qualify as capital costs under Generally Accepted Accounting Principles and are included in the miscellaneous expenses of the District. For FY-2013 and FY-2014 those expenses were \$1.6 million and \$2.9 million, respectively.

For the entire financial reporting period, Fiscal Years 2014 and 2013, Total Net Position decreased approximately \$3.4 million for FY-2014, to \$444.8 million, as compared to FY-2013 when Net Position decreased by \$5.9 million. At the end of FY-2014 the District is able to report positive balances in all categories of net position. This situation also held true for the prior two fiscal years.

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

	2014	2013	2012
Water Sales	\$ 81.3	\$ 72.2	\$ 63.8
Wastewater Revenue	2.8	2.6	2.4
Connection and Other Fees	1.9	2.1	2.2
Non-operating Revenues	7.8	7.7	8.4
Total Revenues	93.8	84.6	76.8
Depreciation Expense	16.1	16.5	15.2
Other Operating Expense	76.5	70.8	65.8
Non-operating Expense	8.0	6.0	5.7
Total Expenses	100.6	93.3	86.7
Loss Before Capital Contributions	(6.8)	(8.7)	(9.9)
Capital Contributions	3.4	2.8	6.8
Change in Net Position	(3.4)	(5.9)	(3.1)
Beginning Net Position	448.2	454.1	457.2
Ending Net Position	\$ 444.8	\$ 448.2	\$ 454.1

Management's Discussion and Analysis

Water Sales increased by \$9.1 million in FY-2014 and \$8.4 million in FY-2013, mainly due to rate increases in both years and an increase in units sold in FY-2014 due to the ongoing drought conditions. The slowdown in District growth, as a result of the economic crisis, continues to impact the District as Connection and Other Fees revenues declined by \$0.2 million in FY-2014 and \$0.1 million in FY-2013.

Other Operating Expense increased predominantly due to the increase in Cost of Water Sales, from a combination of the increased price-per-acre-foot of water obtained from the Los Angeles Metropolitan Water District of 7.7%, and 4.0% from San Diego County Water Authority, brought on by the high cost of supply programs as well as higher energy and operating costs. Increases in units purchased in FY-2014 also contributed to the increases in Operating Expenses.

The slowdown in the economy appears to have leveled off. However, during the nationwide housing mortgage crisis, developers had either slowed down or totally stopped work on many projects until economic conditions improve and the demand for growth returns. The development that has returned has done so at a much slower rate. This has resulted in Capital Contributions remaining low over the last three years, compared to the extended growth of the previous 10 years. While this slowdown now appears to have stabilized, the District was also aided in its Capital Contributions through the receipt of additional federal grant monies and state reimbursements of \$169,000 in FY-2014 and \$184,000 in FY-2013.

Non-operating Revenues

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

	2014	2013	2012
Taxes and Assessments	\$ 3.5	\$ 3.5	\$ 3.5
Rents and Leases	1.3	1.3	1.2
Other Non-operating Revenue	3.0	2.9	3.7
Total Non-operating Revenues	\$ 7.8	\$ 7.7	\$ 8.4

The District's other non-operating revenues increased by \$0.1 million in FY-2014 and decreased by \$0.8 million in FY-2013. The decrease in FY-2013 was primarily a result of decreased miscellaneous and investment earnings.

Capital Assets and Debt Administration

The District's capital assets (net of accumulated depreciation) as of June 30, 2014, totaled \$466.7 million. Included in this amount is land. The District's capital assets decreased by 2.0% for FY-2014 and by 1.0% in FY-2013.

Management's Discussion and Analysis

Capital Assets (In Millions of Dollars)

	2014	2013	2012
Land	\$ 13.7	\$ 13.7	\$ 13.7
Construction in Progress	11.7	17.1	17.5
Water System	465.9	458.8	452.1
Recycled Water System	110.3	108.9	108.0
Sewer System	41.2	41.2	37.8
Field Equipment	8.8	8.9	8.6
Buildings	18.9	18.8	18.6
Transportation Equipment	3.3	3.5	3.2
Communication Equipment	2.9	2.6	2.5
Office Equipment	17.5	17.3	17.2
	694.2	690.8	679.2
Less Accumulated Depreciation	(227.5)	(214.8)	(198.4)
Net Capital Assets	\$ 466.7	\$ 476.0	\$ 480.8

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.

At June 30, 2014, the District had \$105.3 million in outstanding debt (net of \$3.5 million of maturities occurring in FY-2015), which consisted of the following:

General Obligation Bonds	\$ 5.3
Certificates of Participation	45.0
Revenue Bonds	55.0
Total Long-Term Debt	\$ 105.3

In June 2013, the District issued \$7.7 million of 2013 Water Revenue Refunding Bonds for an advance refunding of its 2004 Certificates of Participation, which will be called on September 1, 2014. Excluding costs of issuance the District received \$8.5 million in proceeds, including a \$1.0 million premium, to fund the \$8.1 million of outstanding principal and \$0.4 million of remaining interest payments. In accordance with GASB Nos. 23 and 65, the remaining interest payments of \$0.1 million in FY-2014 and \$0.4 million in FY-2013 are reflected as a deferred outflow of resources on the Statement of Net Position.

Additional information on the District's long-term debt can be found in [Note 4](#) of the Notes to Financial Statements.

Management's Discussion and Analysis

Fiscal Year 2014-2015 Budget

Economic Factors

Growth in the San Diego area has declined over the last five years, but is now slowly improving. This modest shift is also being reflected in the demand for housing. Although San Diego received less than normal rainfall in Fiscal Year 2014, the District is expecting that San Diego's rainfall will return to its average pattern and volume in the coming years. Water sales volumes are expected to increase slightly, by less than one percent over FY-2014 actual sales as the economy improves and both hotter and drier than normal climatic conditions persist. Higher usage is expected to occur even as efforts to promote water conservation ramp-up due to the adoption of emergency drought regulations. The coming years will continue to pose challenges for those in California's water community. It is uncertain if the challenges facing the Sacramento-San Joaquin Bay Delta, the source of 30% of Southern California's water supply, will be addressed. In addition, proposals to construct tunnels under the Bay Delta are extremely costly, face tremendous environmental obstacles, and will be tested and challenged in the court as well as at the ballot box. The combination of these factors add to the cost of providing a stable supply of water as water providers look to new and more costly sources of water.

The District is currently at about 75% of its projected ultimate population, serving approximately 213,000 people. Long-term, this percentage should continue to increase as the District's service area continues to develop and grow. Ultimately, the District is projected to serve approximately 285,000 people, with an average daily demand of 46 million gallons per day (MGD). Currently, the District services the needs of this growing population by purchasing water from CWA, who in turn purchases its water from MWD and the Imperial Irrigation District (IID). Otay takes delivery of the water through several connections of large diameter pipelines owned and operated by CWA. The District currently receives treated water from CWA directly and from Helix Water District via contract with CWA. In addition, the District has an emergency agreement with the City of San Diego to purchase water in the case of a shutdown of the main treated water source. The City of San Diego also has a long-term contract with the District to provide recycled water for landscape and irrigation usage. Through innovative agreements like these, 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 29,192 acre-feet of potable water to 49,257 potable customer accounts during Fiscal Year 2014-2015. Management feels that these projections are realistic after accounting for low growth, supply changes, and a focus on conservation. A combination of factors, including the ongoing drought and recession, have created challenges in developing economic projections for the current fiscal year. Both unemployment and levels of distressed activity in the commercial and residential resale market have improved from their economic crisis peaks. However, both economic indicators remain significantly above the levels of the boom years from 2001 to 2005. The ongoing negative impacts to the District of the economic indicators and conservation are partially offset by

Management's Discussion and Analysis

growth as the District's commercial and residential permits have shown slow and steady improvement from the lows of the economic crisis. While all of these factors impact the region's water usage, people's need for water remains an underlying constant. Staff continues working diligently on developing new water supplies as they work through the financial impacts of conservation and the modest economic turnaround.

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

Basic

Financial Statements

Statements of Net Position

June 30, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and cash equivalents (Notes 1 and 2)	\$ 30,493,474	\$ 33,958,281
Restricted cash and cash equivalents (Notes 1 and 2)	116,639	4,087,042
Investments (Note 2)	27,631,622	16,258,960
Board designated investments (Note 2)	21,605,368	14,860,502
Restricted investments (Notes 1 and 2)	4,564,972	13,560,004
Accounts receivable, net	12,879,121	11,856,029
Accrued interest receivable	83,679	53,950
Taxes and availability charges receivable, net	333,589	431,159
Restricted taxes and availability charges receivable, net	41,091	41,657
Inventories	775,007	800,085
Prepaid items and other receivables	1,047,708	1,072,706
Total Current Assets	99,572,270	96,980,375
Non-current Assets:		
Net OPEB asset (Note 7)	10,385,336	9,345,437
Capital Assets (Note 3):		
Land	13,714,963	13,714,963
Construction in progress	11,642,506	17,110,048
Capital assets, net of depreciation	441,293,934	445,203,648
Total capital assets, net of depreciaton	466,651,403	476,028,659
Total Non-current Assets	477,036,739	485,374,096
Total Assets	576,609,009	582,354,471
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	78,118	390,591
Total Deferred Outflows of Resources	\$ 78,118	\$ 390,591

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

Statements of Net Position

June 30, 2014 and 2013 - Continued

	2014	2013
LIABILITIES		
Current Liabilities:		
Current maturities of long-term debt (Note 4)	\$ 3,495,000	\$ 3,470,000
Accounts payable	11,906,026	11,733,543
Accrued payroll liabilities	3,054,520	2,755,421
Other accrued liabilities	3,397,500	3,487,430
Customer and developer deposits	2,418,754	1,756,983
Accrued interest	1,564,992	1,518,651
Liabilities payable from restricted assets:		
Restricted accrued interest	70,804	76,154
Total Current Liabilities	25,907,596	24,798,182
Non-current Liabilities:		
Long-term debt (Note 4):		
General obligation bonds	5,283,563	5,849,918
Certificates of participation	44,980,314	46,465,525
Revenue bonds	55,058,490	56,678,987
Other non-current liabilities	649,344	718,543
Total Non-current Liabilities	105,971,711	109,712,973
Total Liabilities	131,879,307	134,511,155
NET POSITION		
Net investment in capital assets	357,912,154	376,549,168
Restricted for debt service	3,855,673	4,612,890
Unrestricted	83,039,993	67,071,849
Total Net Position	\$ 444,807,820	\$ 448,233,907

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

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Water sales	\$ 81,287,164	\$ 72,187,081
Wastewater revenue	2,791,523	2,625,087
Connection and other fees	1,946,886	2,069,220
Total Operating Revenues	86,025,573	76,881,388
OPERATING EXPENSES		
Cost of water sales	56,068,147	50,600,551
Wastewater	1,834,465	1,638,354
Administrative and general	18,608,603	18,550,811
Depreciation	16,055,808	16,545,622
Total Operating Expenses	92,567,023	87,335,338
Operating Income (Loss)	(6,541,450)	(10,453,950)
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	522,286	22,155
Taxes and assessments	3,537,162	3,545,595
Availability charges	729,961	707,881
Gain (loss) on sale of capital assets	(426,140)	(546,799)
Rents and leases	1,317,736	1,276,914
Miscellaneous revenues	2,088,132	2,780,603
Donations	(119,687)	(120,684)
Interest expense	(4,872,060)	(3,977,538)
Miscellaneous expenses	(3,054,447)	(1,917,389)
Total Non-operating Revenues (Expenses)	(277,057)	1,770,738
Income (Loss) Before Capital Contributions	(6,818,507)	(8,683,212)
Capital Contributions	3,392,420	2,775,132
Changes in Net Position	(3,426,087)	(5,908,080)
Total Net Position, Beginning,	448,233,907	454,141,987
Total Net Position, Ending	\$ 444,807,820	\$ 448,233,907

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

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 83,717,366	\$ 73,425,100
Receipts from connections and other fees	1,946,886	2,069,220
Other receipts	2,088,132	2,780,603
Payments to suppliers	(57,217,950)	(50,206,581)
Payments to employees	(19,974,636)	(20,491,758)
Other payments	(3,231,510)	(2,038,073)
	<hr/>	<hr/>
Net Cash Provided By (Used For) Operating Activities	7,328,288	5,538,511
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from taxes and assessments	3,635,298	3,612,045
Receipts from property rents and leases	1,202,050	1,276,914
	<hr/>	<hr/>
Net Cash Provided By (Used For) Non-capital and Related Financing Activities	4,837,348	4,888,959
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital contributions	1,903,528	1,515,238
Proceeds from sale of capital assets	102,574	-
Proceeds from debt related taxes and assessments	729,961	707,881
Net proceeds from issuance of long-term debt	-	8,329,385
Retirement of long-term debt	-	(8,100,000)
Principal payments on long-term debt	(3,470,000)	(3,320,000)
Interest payments and fees	(4,518,596)	(5,201,467)
Acquisition and construction of capital assets	(5,718,373)	(10,035,376)
	<hr/>	<hr/>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(10,970,906)	(16,104,339)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	492,557	395,773
Proceeds from sale and maturities of investments	52,121,219	68,832,000
Purchase of investments	(61,243,716)	(60,638,762)
	<hr/>	<hr/>
Net Cash Provided By (Used For) Investing Activities	(8,629,940)	8,589,011
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and cash equivalents	(7,435,210)	2,912,142
Cash and cash equivalents, Beginning	38,045,323	35,133,181
	<hr/>	<hr/>
Cash and cash equivalents, Ending	\$ 30,610,113	\$ 38,045,323
	<hr/>	<hr/>

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

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013 - Continued

	2014	2013
Reconciliation of operating income (loss) to net cash flows provided by (used for) by operating activities:		
Operating income (loss)	\$ (6,541,450)	\$ (10,453,950)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	16,055,808	16,545,622
Miscellaneous revenues	2,088,132	2,780,603
Miscellaneous expenses	(3,231,510)	(2,038,073)
(Increase) decrease in accounts receivable	(1,023,092)	(1,280,059)
(Increase) decrease in inventory	25,078	(10,316)
(Increase) decrease in net OPEB asset	(1,039,899)	(1,023,535)
(Increase) decrease in prepaid items and other receivables	20,997	153,997
Increase (decrease) in accounts payable	172,483	1,255,177
Increase (decrease) in accrued payroll and related expenses	299,099	164,149
Increase (decrease) in other accrued liabilities	(89,930)	(445,012)
Increase (decrease) in customer deposits	661,771	(107,009)
Increase (decrease) in prepaid capacity fees	(69,199)	(3,083)
	\$ 7,328,288	\$ 5,538,511
Schedule of Cash and Cash Equivalents:		
Current assets:		
Cash and cash equivalents	\$ 30,493,474	\$ 33,958,281
Restricted cash and cash equivalents	116,639	4,087,042
	\$ 30,610,113	\$ 38,045,323
Supplemental Disclosures:		
Non-cash Investing and Financing Activities Consisted of the Following:		
Contributed Capital for Water and Sewer System	\$ 1,488,893	\$ 1,259,894
Change in Fair Value of Investments and Recognized Gains/Losses	201,891	(353,950)
Amortization Related to Long-Term Debt	177,063	154,246

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

Notes to Financial Statements

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
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See Independent Auditors' report

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The reporting entity Otay Water District (the "District") includes the accounts of the District and the Otay Water District Financing Authority (the "Financing Authority").

The 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.

The District formed the Financing Authority on March 3, 2010 under the Joint Exercise of Powers Act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code. The Financing Authority was formed to assist the District in the financing of public capital improvements.

The financial statements present the District and its component units. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has accounted for the Financing Authority as a "blended" component unit. Despite being legally separate, the Financing Authority is so intertwined with the District that it is in substance, part of the District's operations. Accordingly, the balances and transactions of this component unit are reported within the funds of the District. Separate financial statements are not issued for the Financing Authority.

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

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

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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

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

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

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

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

Net Investment in Capital Assets

This component of net position 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 assets, 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 the net investment in capital assets.

Restricted Net Position

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

Unrestricted Net Position

This component of net position consists of net position that do not meet the definition of "net investment in capital assets" or "restricted net position".

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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

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

Unrestricted Net Position - Continued

The District distinguishes operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by water sales and wastewater services while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are those revenues and expenses generated that are not 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 \$41,631 and \$52,535 at June 30, 2014 and 2013, respectively.

Additionally, capacity fee contributions received which are related to specific operating expenses are offset against those expenses and included in Cost of Water Sales in the Statements of Revenues and Expenses and Changes in Net Position.

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied, however it is at the Board's discretion.

C) New Accounting Pronouncements

Implemented

The GASB has issued Statement No. 66, "Technical Corrections – 2012; an amendment of GASB Statements No. 10 and No. 62." The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. Currently, the Statement is not applicable to the District.

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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

C) New Accounting Pronouncements - Continued

Pending Accounting Standards

GASB has issued the following statements which impact the District's financial reporting requirements in the future:

- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*"; effective for periods beginning after December 15, 2013.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", effective for the periods beginning after June 15, 2013.

D) Deferred Outflows / Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category, *deferred amount on refunding*, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any type of these items as of June 30, 2014 or June 30, 2013.

E) Statements of Cash Flows

For purposes of the Statements 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.

See Independent Auditors' report

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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

F) Investments

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool. All investments are stated at their fair value, the District has not elected to report certain investments at amortized costs.

G) 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.

H) Capital Assets

Capital assets are recorded at cost, where historical records are available, and at an estimated historical cost where no historical records exist. Infrastructure assets in excess of \$20,000 and other capital assets in excess of \$10,000 are capitalized if they have an expected useful life of two years or more. The District will also capitalize individual purchases under the capitalization threshold if they are part of a new capital program. The cost of purchased and self-constructed additions to utility plant and major replacements of property are capitalized. Costs include materials, direct labor, transportation, and such indirect items as engineering, supervision, employee fringe benefits, overhead, and interest incurred during the construction period. Repairs, maintenance, and minor replacements of property are charged to expense. Donated assets are capitalized at their approximate fair market value on the date contributed.

The District capitalizes interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest for fiscal years ending June 30, 2014 and 2013 of \$176,782 and \$995,721, respectively, is included in the cost of water system assets and is depreciated on the straight-line basis over the estimated useful lives of such assets.

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

Water System	15-70 Years
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

See Independent Auditors' report

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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

I) **Compensated Absences**

It is the District's policy to record vested or accumulated vacation and sick leave as an expense and liability as benefits accrue to employees. As of June 30, 2014 and 2013, total accrued paid time off was \$2,352,861 and \$2,120,399, respectively.

J) **Classification of Liabilities**

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

K) **Allowance for Doubtful Accounts**

The District charges doubtful accounts arising from water sales receivable to bad debt expense when it is probable that the accounts will be uncollectible. Uncollectible accounts are determined by the allowance method based upon prior experience and management's assessment of the collectibility of existing specific accounts. The allowance for doubtful accounts was \$152,680 and \$150,000 for 2014 and 2013, respectively.

L) **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.

M) **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.

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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

N) Reclassifications

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

2) CASH AND INVESTMENTS

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

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

	2014	2013
Statement of Net Position:		
Cash and Cash Equivalents	\$ 30,493,474	\$ 33,958,281
Restricted Cash and Cash Equivalents	116,639	4,087,042
Investments	27,631,622	16,258,960
Board Designated Investments	21,605,368	14,860,502
Restricted Investments	4,564,972	13,560,004
Total Cash and Investments	\$ 84,412,075	\$ 82,724,789

Cash and Investments consist of the following:

	2014	2013
Cash on Hand	\$ 2,950	\$ 2,950
Deposits with Financial Institutions	2,065,122	1,107,051
Investments	82,344,003	81,614,788
Total Cash and Investments	\$ 84,412,075	\$ 82,724,789

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

2) CASH AND INVESTMENTS - Continued

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio⁽¹⁾</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Entities	5 years	None	None
Certificates of Deposit	5 years	15%	None
Corporate Medium-Term Notes	5 years	15%	None
Commercial Paper	270 days	15%	10%
Money Market Mutual Funds	N/A	15%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

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

Investments Authorized by Debt Agreements

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Interest Rate Risk – Continued

from maturities, so that a portion of the portfolio is maturing or coming close to maturity evenly over time, as necessary, to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations are provided by the following tables that show the distribution of the District's investments by maturity as of June 30, 2014 and 2013.

June 30, 2014

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>				
	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>	
U.S. Government Sponsored Entities	\$ 53,716,144	\$ 3,005,760	\$ 7,001,050	\$ 43,709,334	\$ -
Local Agency Investment Fund (LAIF)	11,368,272	11,368,272	-	-	-
San Diego County Pool	17,143,000	17,143,000	-	-	-
Money Market Funds	<u>116,587</u>	<u>116,587</u>	-	-	-
Total	<u>\$ 82,344,003</u>	<u>\$ 31,633,619</u>	<u>\$ 7,001,050</u>	<u>\$ 43,709,334</u>	<u>\$ -</u>

June 30, 2013

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>				
	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>	
U.S. Government Sponsored Entities	\$ 44,599,731	\$ 3,002,850	\$ 17,974,890	\$ 23,621,991	\$ -
Local Agency Investment Fund (LAIF)	17,032,057	17,032,057	-	-	-
San Diego County Pool	<u>19,983,000</u>	<u>19,983,000</u>	-	-	-
Total	<u>\$ 81,614,788</u>	<u>\$ 40,017,907</u>	<u>\$ 17,974,890</u>	<u>\$ 23,621,991</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's Investment Policy, or debt agreements, and the Moody's ratings as of June 30, 2014 and 2013 for each investment type.

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Credit Risk - Continued

June 30, 2014

<u>Investment Type</u>		Minimum Legal Rating	Rating as of Year End			
			AAA	AA	A-1	Not Rated
U.S. Government Sponsored Entities	\$ 53,716,144	N/A	\$ 53,716,144	\$ -	\$ -	-
Local Agency Investment Fund (LAIF)	11,368,272	N/A	-	-	-	11,368,272
San Diego County Pool	17,143,000	N/A	-	-	-	17,143,000
Money Market Funds	<u>116,587</u>	N/A	<u>-</u>	<u>-</u>	<u>116,587</u>	<u>-</u>
Total	<u>\$ 82,344,003</u>		<u>\$ 53,716,144</u>	<u>\$ -</u>	<u>\$ 116,587</u>	<u>\$ 28,511,272</u>

June 30, 2013

<u>Investment Type</u>		Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Not Rated
U.S. Government Sponsored Entities	\$ 44,599,731	N/A	\$ 44,599,731	\$ -	-
Local Agency Investment Fund (LAIF)	17,032,057	N/A	-	-	17,032,057
San Diego County Pool	<u>19,983,000</u>	N/A	<u>-</u>	<u>-</u>	<u>19,983,000</u>
Total	<u>\$ 81,614,788</u>		<u>\$ 44,599,731</u>	<u>\$ -</u>	<u>\$ 37,015,057</u>

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, 2014 and 2013 are as follows:

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

2) CASH AND INVESTMENTS - Continued

Concentration of Credit Risk - Continued

June 30, 2014

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	U.S. Government Sponsored Entities	\$ 19,723,794
Federal Home Loan Mortgage Corp	U.S. Government Sponsored Entities	\$ 17,997,640
Federal National Mortgage Association	U.S. Government Sponsored Entities	\$ 7,986,280
Federal Farm Credit Banks	U.S. Government Sponsored Entities	\$ 8,008,430

June 30, 2013

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	U.S. Government Sponsored Entities	\$ 12,961,010
Federal Home Loan Mortgage Corp	U.S. Government Sponsored Entities	\$ 9,720,091
Federal National Mortgage Association	U.S. Government Sponsored Entities	\$ 4,976,820
Federal Farm Credit Banks	U.S. Government Sponsored Entities	\$ 14,955,390

Custodial Credit Risk

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

As of June 30, 2014, \$1,553,944 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts. As of June 30, 2013, \$1,063,279 of the

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

2) CASH AND INVESTMENTS - Continued

Custodial Credit Risk - Continued

District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

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 Treasurers and Tax Collector. Investments in SDCPIF are highly liquid as deposits and withdrawals can be made at anytime without penalty.

The County of San Diego's bank deposits are either federally insured or collateralized in accordance with the California Government Code. Pool detail is included in the County of San Diego Comprehensive Annual Financial Report (CAFR). Copies of the CAFR may be obtained from the County of San Diego Auditor-Controller's Office - 1600 Pacific Coast Highway, San Diego California 92101.

Collateral for Deposits

All cash is entirely insured or collateralized.

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

The District may waive the 110% collateral requirement for deposits which are insured up to \$250,000 by the FDIC.

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

2) CASH AND INVESTMENTS - Continued

Board Designated Investments

Investments are Board restricted for the cost of the following District projects:

	<u>2014</u>	<u>2013</u>
New Water Supply	\$ 322,087	\$ 863,973
Expansion	6,078	369,791
Replacement	21,277,203	13,626,738
Total	<u>\$ 21,605,368</u>	<u>\$ 14,860,502</u>

Restricted Cash and Cash Equivalents

	<u>2014</u>	<u>2013</u>
Debt Service:		
Water Revenue Bond Series 2010	\$ 116,639	\$ 4,087,042
Total	<u>\$ 116,639</u>	<u>\$ 4,087,042</u>

Restricted Investments

	<u>2014</u>	<u>2013</u>
Debt Service:		
General Obligation Bond ID No. 27-2009	\$ 812,239	\$ 917,708
Water Revenue Bond Series 2010A	1,026,909	1,029,999
Water Revenue Bond Series 2010B	2,696,849	11,602,893
Construction:		
Betterment	28,975	9,404
Total	<u>\$ 4,564,972</u>	<u>\$ 13,560,004</u>

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

3) CAPITAL ASSETS

The following is a summary of changes in Capital Assets for the year ended June 30, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated				
Land	\$ 13,714,963	\$ -	\$ -	\$ 13,714,963
Construction in Progress	<u>17,110,048</u>	<u>8,498,574</u>	<u>(13,966,116)</u>	<u>11,642,506</u>
Total Capital Assets Not Depreciated	<u>30,825,011</u>	<u>8,498,574</u>	<u>(13,966,116)</u>	<u>25,357,469</u>
Capital Assets, Being Depreciated				
Infrastructure	608,634,474	11,562,280	(2,848,379)	617,348,375
Field Equipment	8,934,034	144,207	(265,548)	8,812,693
Buildings	18,849,509	79,370	-	18,928,879
Transportation Equipment	3,497,789	422,566	(611,753)	3,308,602
Communication Equipment	2,562,480	428,140	(110,479)	2,880,141
Office Equipment	<u>17,298,342</u>	<u>274,011</u>	<u>(59,160)</u>	<u>17,513,193</u>
Total Capital Assets Being Depreciated	<u>659,776,628</u>	<u>12,910,574</u>	<u>(3,895,319)</u>	<u>668,791,883</u>
Less Accumulated Depreciation:				
Infrastructure	181,997,301	13,313,914	(2,086,011)	193,225,204
Field Equipment	7,579,663	181,393	(265,548)	7,495,508
Buildings	7,832,547	504,021	-	8,336,568
Transportation Equipment	2,615,775	295,826	(611,753)	2,299,848
Communication Equipment	1,448,152	408,940	(110,479)	1,746,613
Office Equipment	<u>13,099,542</u>	<u>1,351,714</u>	<u>(57,048)</u>	<u>14,394,208</u>
Total Accumulated Depreciation	<u>214,572,980</u>	<u>16,055,808</u>	<u>(3,130,839)</u>	<u>227,497,949</u>
Total Capital Assets Being Depreciated, Net	<u>445,203,648</u>	<u>(3,145,234)</u>	<u>(764,480)</u>	<u>441,293,934</u>
Total Capital Assets, Net	<u>\$ 476,028,659</u>	<u>\$ 5,353,340</u>	<u>\$ (14,730,596)</u>	<u>\$ 466,651,403</u>

Depreciation expense for the year ended June 30, 2014 was \$16,055,808.

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

3) CAPITAL ASSETS - Continued

The following is a summary of changes in Capital Assets for the year ended June 30, 2013:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated				
Land	\$ 13,703,463	\$ 11,500	\$ -	\$ 13,714,963
Construction in Progress	<u>17,452,274</u>	<u>11,751,086</u>	<u>(12,093,312)</u>	<u>17,110,048</u>
Total Capital Assets Not Depreciated	<u>31,155,737</u>	<u>11,762,586</u>	<u>(12,093,312)</u>	<u>30,825,011</u>
Capital Assets, Being Depreciated				
Infrastructure	597,894,929	11,620,876	(881,331)	608,634,474
Field Equipment	8,602,060	331,974	-	8,934,034
Buildings	18,649,209	200,300	-	18,849,509
Transportation Equipment	3,221,249	277,860	(1,320)	3,497,789
Communication Equipment	2,514,151	81,670	(33,341)	2,562,480
Office Equipment	<u>17,201,420</u>	<u>209,037</u>	<u>(112,115)</u>	<u>17,298,342</u>
Total Capital Assets Being Depreciated	<u>648,083,018</u>	<u>12,721,717</u>	<u>(1,028,107)</u>	<u>659,776,628</u>
Less Accumulated Depreciation:				
Infrastructure	169,258,402	12,993,086	(254,187)	181,997,301
Field Equipment	7,373,481	206,182	-	7,579,663
Buildings	7,347,820	484,727	-	7,832,547
Transportation Equipment	2,306,300	310,796	(1,321)	2,615,775
Communication Equipment	1,035,846	445,648	(33,342)	1,448,152
Office Equipment	<u>11,086,817</u>	<u>2,105,183</u>	<u>(92,458)</u>	<u>13,099,542</u>
Total Accumulated Depreciation	<u>198,408,666</u>	<u>16,545,622</u>	<u>(381,308)</u>	<u>214,572,980</u>
Total Capital Assets Being Depreciated, Net	<u>449,674,352</u>	<u>(3,823,905)</u>	<u>(646,799)</u>	<u>445,203,648</u>
Total Capital Assets, Net	<u>\$ 480,830,089</u>	<u>\$ 7,938,681</u>	<u>\$ (12,740,111)</u>	<u>\$ 476,028,659</u>

Depreciation expense for the year ended June 30, 2013 was \$16,545,622.

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

4) LONG-TERM DEBT

Long-term liabilities for the year ended June 30, 2014 are as follows:

	Beginning			Ending	Due Within
	Balance	Additions	Deletions	Balance	One Year
General Obligation Bonds:					
Improvement District No. 27 - 2009	\$ 6,235,000	\$ -	\$ 535,000	\$ 5,700,000	\$ 550,000
Unamortized Bond Premium	<u>149,918</u>	<u>-</u>	<u>16,355</u>	<u>133,563</u>	<u>-</u>
Net General Obligation Bonds	<u>6,384,918</u>	<u>-</u>	<u>551,355</u>	<u>5,833,563</u>	<u>550,000</u>
Certificates of Participation:					
1996 Certificates of Participation	10,400,000	-	500,000	9,900,000	500,000
2007 Certificates of Participation	37,745,000	-	955,000	36,790,000	995,000
1996 COPS Unamortized Discount	(10,432)	-	(745)	(9,687)	-
2007 COPS Unamortized Discount	<u>(214,043)</u>	<u>-</u>	<u>(9,044)</u>	<u>(204,999)</u>	<u>-</u>
Net Certificates of Participation	<u>47,920,525</u>	<u>-</u>	<u>1,445,211</u>	<u>46,475,314</u>	<u>1,495,000</u>
Revenue Bonds:					
2010 Water Revenue Bonds Series A	12,255,000	-	820,000	11,435,000	845,000
2010 Water Revenue Bonds Series B	36,355,000	-	-	36,355,000	-
2013 Water Revenue Refunding Bonds	7,735,000	-	660,000	7,075,000	605,000
2010 Series A Unamortized Premium	837,019	-	74,402	762,617	-
2013 Bonds Unamortized Premium	<u>976,968</u>	<u>-</u>	<u>96,095</u>	<u>880,873</u>	<u>-</u>
Net Revenue Bonds	<u>58,158,987</u>	<u>-</u>	<u>1,650,497</u>	<u>56,508,490</u>	<u>1,450,000</u>
Total Long-Term Liabilities	<u>\$ 112,464,430</u>	<u>\$ -</u>	<u>\$ 3,647,063</u>	<u>\$ 108,817,367</u>	<u>\$ 3,495,000</u>

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

4) LONG-TERM DEBT - Continued

Long-term liabilities for the year ended June 30, 2013 are as follows:

	Beginning Balance (As Restated)	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds:					
Improvement District No. 27 - 2009	\$ 6,755,000	\$ -	\$ 520,000	\$ 6,235,000	\$ 535,000
Unamortized Bond Premium	<u>166,271</u>	<u>-</u>	<u>16,353</u>	<u>149,918</u>	<u>-</u>
Net General Obligation Bonds	<u>6,921,271</u>	<u>-</u>	<u>536,353</u>	<u>6,384,918</u>	<u>535,000</u>
Certificates of Participation:					
1996 Certificates of Participation	10,900,000	-	500,000	10,400,000	500,000
2004 Certificates of Participation	8,680,000	-	8,680,000	-	-
2007 Certificates of Participation	38,665,000	-	920,000	37,745,000	955,000
1996 COPS Unamortized Discount	(11,178)	-	(746)	(10,432)	-
2007 COPS Unamortized Discount	(223,087)	-	(9,044)	(214,043)	-
2004 COPS Unamortized Premium	<u>13,005</u>	<u>-</u>	<u>13,005</u>	<u>-</u>	<u>-</u>
Net Certificates of Participation	<u>58,023,740</u>	<u>-</u>	<u>10,103,215</u>	<u>47,920,525</u>	<u>1,455,000</u>
Revenue Bonds:					
2010 Water Revenue Bonds Series A	13,055,000	-	800,000	12,255,000	820,000
2010 Water Revenue Bonds Series B	36,355,000	-	-	36,355,000	-
2010 Series A Unamortized Premium	911,421	-	74,402	837,019	-
2013 Water Revenue Refunding Bonds	-	7,735,000	-	7,735,000	660,000
2013 Bonds Unamortized Premium	<u>-</u>	<u>984,976</u>	<u>8,008</u>	<u>976,968</u>	<u>-</u>
Net Revenue Bonds	<u>50,321,421</u>	<u>8,719,976</u>	<u>882,410</u>	<u>58,158,987</u>	<u>1,480,000</u>
Total Long-Term Liabilities	<u>\$ 115,266,432</u>	<u>\$ 8,719,976</u>	<u>\$ 11,521,978</u>	<u>\$ 112,464,430</u>	<u>\$ 3,470,000</u>

See Independent Auditors' report

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

4) 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 Improvement District No. 27-2009 to refund the 1998 issue. The proceeds from the bond issue were \$7,989,884, which included an original issue premium of \$209,884. An amount of \$7,824,647, which consisted of unpaid principal and accrued interest, was deposited into an escrow fund. Pursuant to an optional redemption clause in the 1998 bonds, the District was able to redeem the 1998 bonds, without premium at any time after September 1, 2009. On December 15, 2009 the 1998 bonds were refunded.

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 Improvement District No. 27-2009 General Obligation Refunding 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			
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 550,000	\$ 204,162	\$ 754,162
2016	570,000	187,362	757,362
2017	585,000	169,306	754,306
2018	605,000	147,700	752,700
2019	635,000	122,900	757,900
2020-2023	<u>2,755,000</u>	<u>225,100</u>	<u>2,980,100</u>
	<u>\$ 5,700,000</u>	<u>\$ 1,056,530</u>	<u>\$ 6,756,530</u>

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

4) LONG-TERM DEBT - Continued

Certificates of Participation (COPS)

In June 1996, COPS with face value of \$15,400,000 were sold by the Otay Service Corporation to finance the cost of design, acquisition, and construction of certain capital improvements. An installment purchase agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS. The installment payments are to be paid from taxes and "net revenues," as described in the installment agreement. The certificates bear interest at a variable weekly rate not to exceed 12%. The variable interest rate is tied to the 30-day LIBOR index and the Securities Industry and Financial Markets Association (SIFMA) index. An irrevocable letter of credit facility is necessary to market the District's variable rate debt. This facility is with Union Bank and covers the outstanding principal and interest. The facility expires on June 29, 2017. The interest rate at June 30, 2014 was 0.15%. The installment payments are to be paid annually at \$350,000 to \$900,000 from September 1, 1996 through September 1, 2026.

In July 2004, Refunding Certificates of Participation (COPS) with a face value of \$12,270,000 were sold by the Otay Service Corporation to advance refund \$11,680,000 of outstanding 1993 COPS. An installment agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS.

In March 2007, Revenue Certificates of Participation (COPS) with face value of \$42,000,000 were sold by the Otay Service Corporation to improve the District's water storage system and distribution facilities. An installment purchase agreement between the District, as a Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS. The installment payments are to be paid from taxes and "net revenues," as described in the installment agreement. The certificates are due in annual installments of \$785,000 to \$2,445,000 from September 1, 2007 through September 1, 2036; bearing interest at 3.7% to 4.47%.

Defeased Certificate of Participation (COPS)

In June 2013, the July 2004 COPS were refunded with the issuance of the 2013 Water Revenue Refunding Bonds ([see Revenue Bonds on page 49](#)). Proceeds of \$8,575,519, which consisted of unpaid principal and accrued interest, were used to establish an irrevocable escrow to advance refund and defease in their entirety the District's 2004 COPS. Pursuant to an optional redemption clause in the 2004 COPS, the District will be able to redeem the 2004 bonds, without premium at any time after September 1, 2014. As a result, the 2004 COPS are considered to be defeased and the liability of those bonds has been removed from long-term liabilities. The outstanding balance at June 30, 2014 is \$7,500,000.

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

4) LONG-TERM DEBT - Continued

Defeased Certificates of Participation (COPS) – Continued

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,	<u>1996 COPS</u>		<u>2007 COPS</u>	
	<u>Principal</u>	<u>Interest*</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 500,000	\$ 14,225	\$ 995,000	\$ 1,517,301
2016	600,000	13,350	1,035,000	1,479,239
2017	600,000	12,450	1,075,000	1,439,408
2018	600,000	11,550	1,115,000	1,397,798
2019	700,000	10,525	1,155,000	1,354,234
2020-2024	3,900,000	35,925	6,515,000	6,031,444
2025-2029	3,000,000	5,550	7,995,000	4,538,196
2030-2034	-	-	9,875,000	2,644,028
2035-2036	-	-	7,030,000	470,094
	<u>\$ 9,900,000</u>	<u>\$ 103,575</u>	<u>\$36,790,000</u>	<u>\$20,871,742</u>

*Variable Rate - Interest reflected at June 30, 2014 at a rate of 0.15%.

The two COP debt issues contain various covenants and restrictions, principally that the District fix, prescribe, revise and collect rates, fees and charges for the Water System which will be at least sufficient to yield, during each fiscal year, taxes and net revenues equal to one hundred twenty-five percent (125%) of the debt service for such fiscal year. The District was in compliance with these rate covenants for the fiscal year ended June 30, 2014.

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 \$36,355,000. The Series 2010A bonds are due in annual installments of \$785,000 to \$1,295,000 from September 1, 2012 through September 1, 2025; bearing interest at 2% to 5.25%. The Series 2010B bonds are due in annual installments of \$1,365,000 to \$3,505,000 from

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

4) LONG-TERM DEBT - Continued

Water Revenue Bonds - Continued

September 1, 2026 through September 1, 2040; bearing interest at 6.377% to 6.577%. Interest on both Series is payable on September 1, 2010 and semiannually thereafter on March 1st and September 1st of each year until maturity or earlier redemption. The installment payments are to be made from Taxes and Net Revenues of the Water System as described in the installment purchase agreement, on parity with the payments required to be made by the District for the 1996, and 2007 Certificates of Participation described above and the 2013 Water Revenue Refunding Bonds described below.

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

The original issue premium is being amortized over the 14 year life of the Series 2010A bonds. Amortization for the year ending June 30, 2014 was \$74,402 and is included in interest expense. The unamortized premium at June 30, 2014 is \$762,617.

The 2010 Water Revenue Bonds contains various covenants and restrictions, principally that the District fix, prescribe, revise and collection 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, 2014.

In June 2013, the 2013 Water Revenue Refunding Bonds were issued to defease the 2004 Refunding Certificates of Participation. The bonds were issued with a face value of \$7,735,000 plus a \$984,975 original issue premium. The bonds are due in annual installments of \$660,000 to \$835,000 from September 1, 2013 through September 1, 2023; bearing interest at 1% to 4%. The installment payments are to be made from Taxes and Net Revenues of the Water System, on parity with the payments required to be made by the District for the 1996, and 2007 Certificates of Participation and the 2010A and 2010B described above.

The original issue premium is being amortized over the 11 year life of the Series 2013 bonds. Amortization for the year ending June 30, 2014 was \$96,095 and is included in interest expense. The unamortized premium at June 30, 2014 is \$880,873.

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

4) LONG-TERM DEBT - Continued

Water Revenue Bonds - Continued

The total amount outstanding at June 30, 2014 and aggregate maturities of the revenue bonds for the fiscal years subsequent to June 30, 2014, are as follows:

For the Year Ended June 30,	2010 Water Revenue Bond Series A		2010 Water Revenue Bond Series B		2013 Water Revenue Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 845,000	\$ 508,563	\$ -	\$ 2,371,868	\$ 605,000	\$ 258,700
2016	870,000	478,488	-	2,371,868	615,000	243,425
2017	900,000	443,088	-	2,371,868	635,000	221,500
2018	940,000	406,288	-	2,371,868	660,000	195,600
2019	975,000	367,988	-	2,371,868	685,000	168,700
2020-2024	5,610,000	1,068,687	-	11,859,342	3,875,000	399,500
2025-2029	1,295,000	33,994	6,000,000	11,123,436	-	-
2030-2034	-	-	9,925,000	8,425,226	-	-
2035-2039	-	-	13,635,000	4,590,582	-	-
2040-2042	-	-	6,795,000	453,978	-	-
	<u>\$ 11,435,000</u>	<u>\$ 3,307,096</u>	<u>\$ 36,355,000</u>	<u>\$ 48,311,904</u>	<u>\$ 7,075,000</u>	<u>\$ 1,487,425</u>

5) NET POSITION

Designations of Net Position

In addition to the restricted net position, a portion of unrestricted net position, have been designated by the Board of Directors for the following purposes as of June 30, 2014 and 2013:

	2014	2013
Designated Betterment	\$ 4,543,776	\$ 3,629,786
Expansion Reserve	4,457,117	623,834
Replacement Reserve	21,473,229	24,182,442
Designated New Supply Fund	24,125	24,000
Employee Benefits Reserve	307,279	149,705
Total	<u>\$ 30,805,526</u>	<u>\$ 28,609,767</u>

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

6) DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

Active classic members in the Plan are required to contribute 8% of their annual covered salary. By agreement between the Employee Association and the District, the represented employees paid 5.25% of covered salaries beginning August 15, 2011. Also by agreement, the unrepresented employees began paying 4.5% of covered salaries as of July 15, 2011. Prior to these agreements all employees paid 1% of covered salaries. In these same agreements, all employees, after June 30, 2012, contributed an additional 3.5% of covered salaries. Effective January 1, 2013, classic represented employees contribution was reduced to an additional 2.75% of covered salaries. For new members (employees hired on or after January 1, 2013 and are new entrants to the PERS System), employees pay a 6.25% contribution. The District is required to contribute the actuarially determined remaining amounts necessary to fund the 2.7% at age 55 retirement plan benefits for its classic members and 2.0% at age 62 for its new members under the California Employees' Pension Reform Act (PEPRA) provisions. 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, 2014 was 25.435%. 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, 2014, the District's annual pension cost and actual contribution was \$3,294,341. The required contribution for the fiscal year ended June 30, 2014 was determined as part of the June 30, 2011 actuarial valuation.

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

6) DEFINED BENEFIT PENSION PLAN - Continued

Annual Pension Costs - Continued

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

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	21 Years as of the Valuation Date
Asset Valuation Method	15-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.50% (Net of Administrative Expenses)
Projected Salary Increase	3.30% to 14.20% Depending on Age, Service, and Type of Employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 2.75% 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 30 year 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 not be lower than the payment calculated over a 30-year amortization period.

THREE-YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/14	\$ 3,294,341	100%	\$ -
6/30/13	\$ 3,130,754	100%	\$ -
6/30/12	\$ 2,951,409	100%	\$ -

Fund Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 69.4% funded. The actuarial accrued liability (AAL) for benefits was \$95,927,777, and the actuarial value of assets was \$66,578,121, resulting in an unfunded actuarial accrued liability (UAAL) of \$29,349,656. The covered payroll (annual

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

6) DEFINED BENEFIT PENSION PLAN - Continued

Fund Status and Funding Progress - Continued

payroll of active employees covered by the plan) was \$11,474,462, and the ratio of the UAAL to the covered payroll was 255.8%.

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

7) OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District's defined benefit postemployment healthcare plan, (DPHP), provides medical benefits to eligible retired District employees and beneficiaries. DPHP is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

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

Subsequent to the agreements in 2011 and 2012 all employees are eligible for the plan after 20 years of consecutive service and unrepresented employees hired before January 1, 2013 are eligible after 15 years. Survivor benefits are covered beyond Medicare.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. Effective January 1, 2013, represented employees hired prior to January 1, 2013 or

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

7) OTHER POST EMPLOYMENT BENEFITS - Continued

Funding Policy- Continued

hired on or after January 1, 2013 from another public agency that has reciprocity without having a break in service of more than six months, contribute .75% of covered salaries. In addition, unrepresented and represented employees hired on or after January 1, 2013, and do not have reciprocity from another public agency, contribute 1.75% and 2.5% of covered salaries, respectively. DPHP members receiving benefits contribute based on their selected plan options of EPO, HMO or PPO and whether they are outside the State of California. Contributions by plan members range from \$0 to \$154 per month for coverage to age 65, and from \$0 to \$154 per month, respectively, thereafter.

Annual OPEB Cost and Net OPEB Obligation/Asset

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 12.0% 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:

	2014	2013
Annual Required Contribution (ARC)	\$ 1,439,000	\$ 1,287,000
Interest on Net OPEB Asset	(677,544)	(603,338)
Adjustment to Annual Required Contribution (ARC)	625,000	543,000
Annual OPEB Cost (Expense)	1,386,456	1,226,662
Contributions Made	2,426,355	2,250,198
Increase in Net OPEB Asset	(1,039,899)	(1,023,535)
Net OPEB Asset - Beginning of Year	(9,345,437)	(8,321,902)
Net OPEB Asset - End of Year	\$(10,385,336)	\$ (9,345,437)

For 2014, in addition to the ARC, the District contributed cash benefit payments outside the trust (healthcare premium payments for retirees to Special District Risk Management Authority (SDRMA) in the amount of \$940,355, which is included in the \$2,426,355 of contributions shown above. For 2013 this amount was \$877,196, which is included in the \$2,250,198 of contributions shown above.

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

7) OTHER POST EMPLOYMENT BENEFITS - Continued

Annual OPEB Cost and Net OPEB Obligation/Asset - 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 2014, 2013 and 2012 were as follows:

<u>THREE-YEAR TREND INFORMATION FOR CERBT</u>			
<u>Fiscal Year</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/14	\$ 1,386,456	175%	\$ (10,385,336)
6/30/13	\$ 1,226,662	183%	\$ (9,345,437)
6/30/12	\$ 1,239,315	173%	\$ (8,321,902)

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 22,891,000
Actuarial Value of Plan Assets	\$ 11,831,000
Unfunded Actuarial Accrued Liability (UAAL)	\$ 11,060,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)	51.68%
Covered Payroll (Active Plan Members)	\$ 11,969,000
UAAL as a Percentage of Covered Payroll	92.41%

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 the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

7) 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 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 the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of 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, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	24-Year Fixed (Closed) Period as of the Valuation Date
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.25% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	3.00%
Individual Salary Growth	CalPERS 1997-2007 Experience Study
Healthcare Cost Trend Rate	Medical: 10% per annum graded down in approximately one-half percent increments to an ultimate rate of 5%. Dental: 4% per annum.

8) WATER CONSERVATION AUTHORITY

In 1999 the District formed the Water Conservation Garden 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, 2014 and 2013, the District contributed \$119,687 and \$120,684, respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

8) WATER CONSERVATION AUTHORITY - Continued

A summary of the Authority's June 30, 2013 audited financial statement is as follows (latest report available):

Assets	\$ 1,555,790
Liabilities	3,750
Net Assets	<u>\$ 1,552,040</u>
Revenues, Gains and Other Support	\$ 135,000
Expenses	238,551
Changes in Net Assets	<u>\$ (103,551)</u>

9) COMMITMENTS AND CONTINGENCIES

Construction Commitments

The District had committed to capital projects under construction with an estimated cost to complete of \$8,488,804 at June 30, 2014.

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, 2013, 1,751 EDUs had been relinquished and refunded, 15,031 EDUs had been connected, and 1,085 EDUs have neither been relinquished nor connected. At June 30, 2014, 1,751 EDUs had been relinquished and refunded, 15,073 EDUs had been connected, and 1,043 EDUs have neither been relinquished nor connected.

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

9) COMMITMENTS AND CONTINGENCIES - Continued

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, 2014, 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 \$221,320 at the point of acceptance. Accordingly, the District has accrued a liability as of year end.

10) 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. Accordingly, the District retains no risk of loss. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "I" Street, Suite 300, Sacramento, CA 95814.

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

- \$500 per occurrence for third party general liability property damage;
- \$1,000 per occurrence for third party auto liability property damage;
- 50% co-insurance of cost expended by SDRMA, in excess of \$10,000 up to \$50,000, per occurrence, as respects any employment practices claim or suit arising in whole or any part out of any action involving discipline, demotion, reassignment or termination of any employee of the member.

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

10) RISK MANAGEMENT - Continued

General Liability – Continued

Employee Dishonesty Coverage: Total of \$400,000 per loss includes Public Employee Dishonesty, Forgery or Alteration and Theft, Disappearance and Destruction coverage's effective July 1, 2013

Property Loss: Replacement cost, for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of \$1 billion per occurrence, subject to a \$2,000 deductible per occurrence, effective July 1, 2013.

Boiler and Machinery: Replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible, effective July 1, 2013.

Public Officials Personal Liability: \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage's, deductible of \$500 per claim, effective July 1, 2013.

Comprehensive and Collision: On selected vehicles, with deductibles of \$250/\$500 or \$500/\$1,000, as elected; ACV limits; fully self-funded by SDRMA; Policy No. LCA - SDRMA - 201314, effective July 1, 2013.

Workers' Compensation Coverage and Employer's Liability: Statutory limits per occurrence for Workers' Compensation and \$5.0 million for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, effective July 1, 2013.

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 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.

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

11) INTEREST EXPENSE

Interest expense for the years ended June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Amount Expensed	\$ 4,872,060	\$ 3,977,538
Amount Capitalized as a Cost of Construction Projects	<u>176,782</u>	<u>995,721</u>
Total Interest	<u>\$ 5,048,842</u>	<u>\$ 4,973,259</u>

12) SEGMENT INFORMATION

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

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Notes to Financial Statements

Years Ended June 30, 2014 and 2013

12) SEGMENT INFORMATION - Continued

Summary financial information for the water services is presented for June 30, 2014:

Condensed Statement of Net Position June 30, 2014

	<u>Water Services</u>
ASSETS	
Current Assets	\$ 99,383,693
Capital Assets	448,775,521
Other Assets	11,756,796
	<hr/>
Total Assets	559,916,010
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Amount on Refunding	78,118
	<hr/>
Total Deferred Outflows of Resources	78,118
	<hr/>
LIABILITIES	
Current Liabilities	25,670,427
Long-term Liabilities	105,971,711
	<hr/>
Total Liabilities	131,642,138
	<hr/>
NET POSITION	
Invested in Capital Assets	343,531,272
Restricted for Debt Service	3,855,673
Unrestricted	80,965,045
	<hr/>
Total Net Position	\$ 428,351,990
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See Independent Auditors' report

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

12) SEGMENT INFORMATION - Continued

**Condensed Statement of Revenues, Expenses
and Changes in Net Position
For the Year Ended June 30, 2014**

	<u>Water Services</u>
Operating Revenues	
Water Sales	\$ 81,287,164
Connection and Other Fees	1,943,306
Total Operating Revenues	<u>83,230,470</u>
Operating Expenses	
Cost of Water Sales	56,068,147
Administrative and General	18,608,603
Depreciation	15,014,281
Total Operating Expenses	<u>89,691,031</u>
Operating Income (Loss)	(6,460,561)
Non-operating Revenues (Expenses)	
Investment Earnings	459,098
Taxes and Assessments	3,536,200
Availability Charges	685,444
Gain (Loss) on Sale of Capital Assets	(426,140)
Rents and Leases	1,317,736
Miscellaneous Revenues	2,034,182
Donations	(119,687)
Interest Expense	(4,872,060)
Miscellaneous Expenses	(3,054,447)
Total Non-operating Revenues (Expenses)	<u>(439,674)</u>
Income (Loss) Before Capital Contributions	(6,900,235)
Capital Contributions	<u>2,725,666</u>
Change in Net Position	(4,174,569)
Total Net Position, Beginning	<u>432,526,559</u>
Total Net Position, Ending	<u><u>\$ 428,351,990</u></u>

See Independent Auditors' report

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

12) SEGMENT INFORMATION - Continued

Condensed Statement of Cash Flows
For the Year Ended June 30, 2014

	<u>Water Services</u>
Net Cash Provided By (Used For):	
Operating Activities	\$ 6,536,602
Non-capital and Related Financing Activities	4,836,386
Capital and Related Financing Activities	(10,115,070)
Investing Activities	(8,693,128)
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,435,210)
Cash and Cash Equivalents, Beginning	38,045,323
	<hr/>
Cash and Cash Equivalents, Ending	\$ 30,610,113
	<hr/> <hr/>

See Independent Auditors' report

Required
Supplementary Information

Required Supplementary Information

Years Ended June 30, 2014 and 2013

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]
6/30/12						
Miscellaneous	\$ 66,578,121	\$ 95,927,777	\$ 29,349,656	69.4%	\$ 11,474,462	255.8%
6/30/11						
Miscellaneous	\$ 62,435,349	\$ 88,411,019	\$ 25,975,670	70.6%	\$ 12,289,529	211.4%
6/30/10						
Miscellaneous	\$ 57,613,987	\$ 81,306,934	\$ 23,692,947	70.9%	\$ 12,140,989	195.1%

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]
6/30/13						
Miscellaneous	\$ 11,831,000	\$ 22,891,000	\$ 11,060,000	51.68%	\$ 11,969,000	92.41%
6/30/11						
Miscellaneous	\$ 7,893,000	\$ 18,289,000	\$ 10,396,000	43.16%	\$ 12,429,000	83.64%
6/30/09						
Miscellaneous	\$ 6,273,000	\$ 10,070,000	\$ 3,797,000	62.29%	\$ 11,878,000	31.97%

See Independent Auditors' report

Statistical Schedules

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

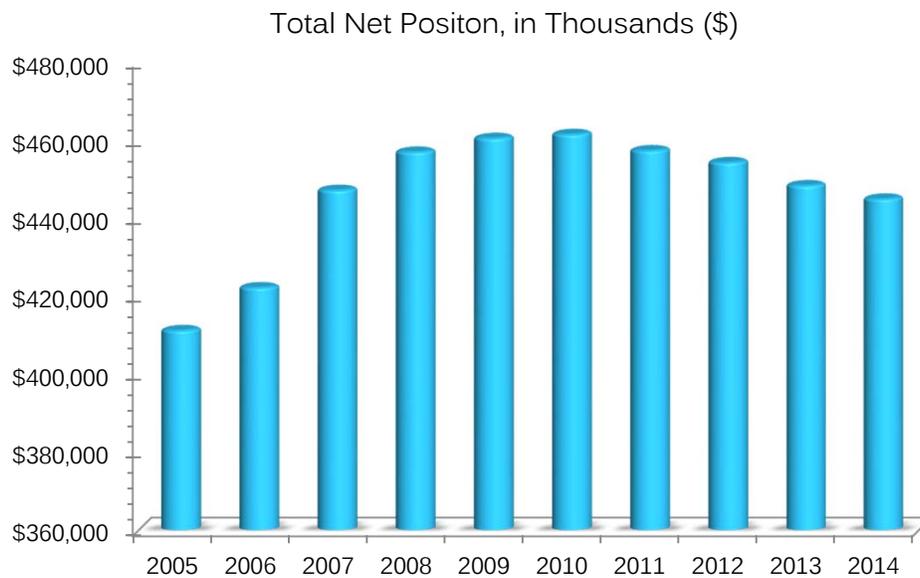
<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	66
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the District's ability to generate its potable and recycled water, and sewer sales as well as property and sales taxes.	72
Debt These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt.	81
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.	85
Operating Information These schedules contain information about the District's operation and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.	87

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 Position by Component - Last Ten Fiscal Years

Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2014	\$ 357,912,154	\$ 3,855,673	\$ 83,039,993	\$ 444,807,820
2013	376,549,168	4,612,890	67,071,849	448,233,907
2012	381,725,015	4,715,904	67,701,068	454,141,987
2011	377,656,762	4,915,555	74,627,563	457,199,880
2010	375,953,042	5,192,111	80,204,428	461,349,581
2009	382,410,491	1,797,512	76,136,868	460,344,871
2008	372,696,591	9,411,114	74,719,712	456,827,417
2007	374,667,591	2,071,307	70,282,627	447,021,525
2006	361,590,845	2,408,473	58,066,009	422,065,327
2005	325,676,089	16,188,364	69,224,020	411,088,473

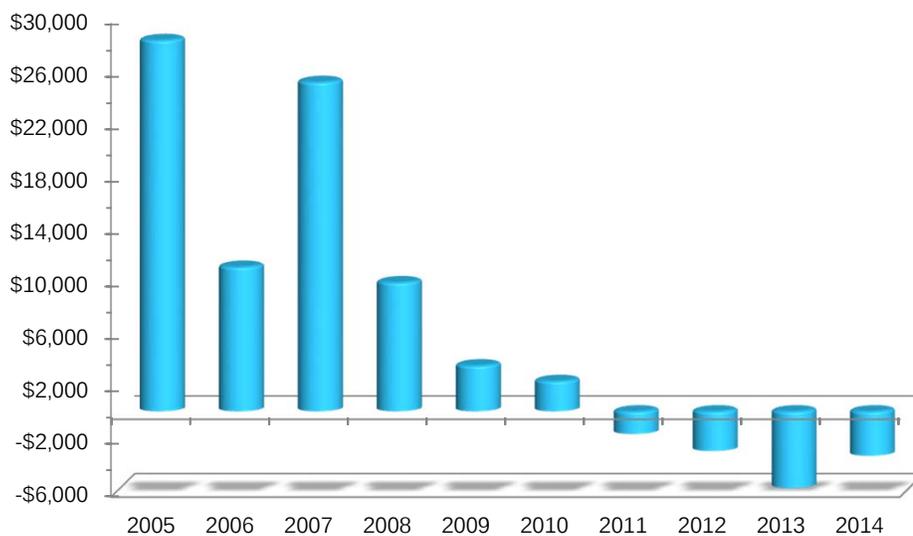


Source: Otay Water District

Changes in Net Position - Last Ten Fiscal Years

Fiscal Year	Operating Revenues	Operating Expenses	Total			Capital Contributions	Changes in Net Position
			Operating Income/ (Loss)	Non-Operating Revenues/ (Expenses)	Income (Loss) Before Capital Contributions		
2014	\$ 86,025,573	\$ 92,567,023	\$ (6,541,450)	\$ (277,057)	\$ (6,818,507)	\$ 3,392,420	\$ (3,426,087)
2013	76,881,388	87,335,338	(10,453,950)	1,770,738	(8,683,212)	2,775,132	(5,908,080)
2012	68,400,349	81,795,466	(13,395,117)	3,511,327	(9,883,790)	6,825,897	(3,057,893)
2011	63,204,216	77,266,228	(14,062,012)	4,452,825	(9,609,187)	7,866,190	(1,742,997)
2010	60,686,681	73,126,342	(12,439,661)	5,937,575	(6,502,086)	8,839,892	2,337,806
2009	57,103,311	71,507,161	(14,403,850)	10,932,096	(3,471,754)	6,989,208	3,517,454
2008	55,714,845	71,474,372	(15,759,527)	10,623,457	(5,136,070)	14,941,962	9,805,892
2007	53,250,481	64,651,050	(11,400,569)	9,793,692	(1,606,877)	26,563,075	24,956,198
2006	47,861,088	59,528,094	(11,667,006)	7,242,280	(4,424,726)	15,401,580	10,976,854
2005	43,335,915	56,449,475	(13,113,560)	6,271,482	(6,842,078)	34,969,305	28,127,227

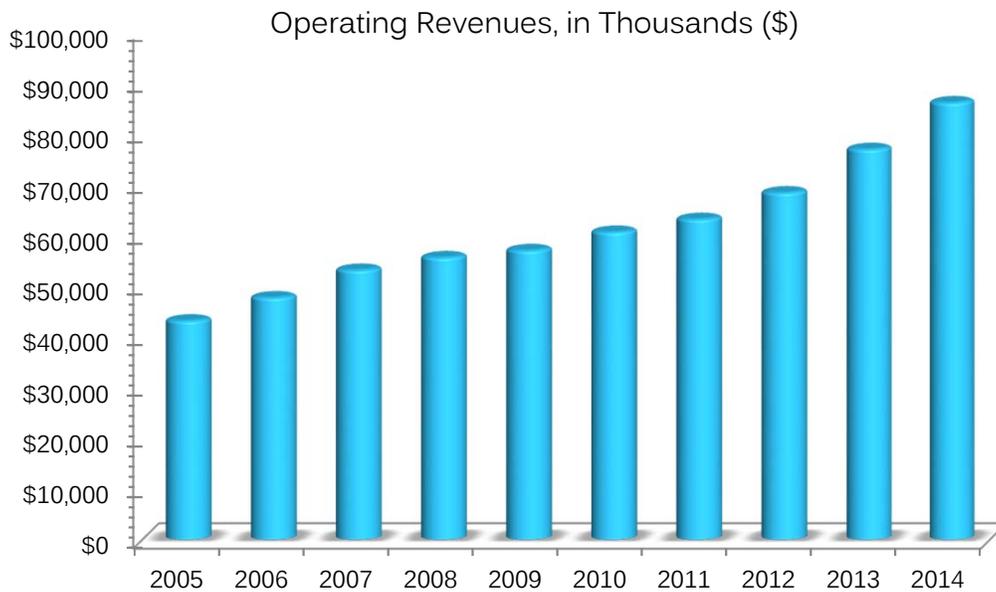
Changes in Net Position, in Thousands (\$)



Source: Otay Water District

Operating Revenues by Source - Last Ten Fiscal Years

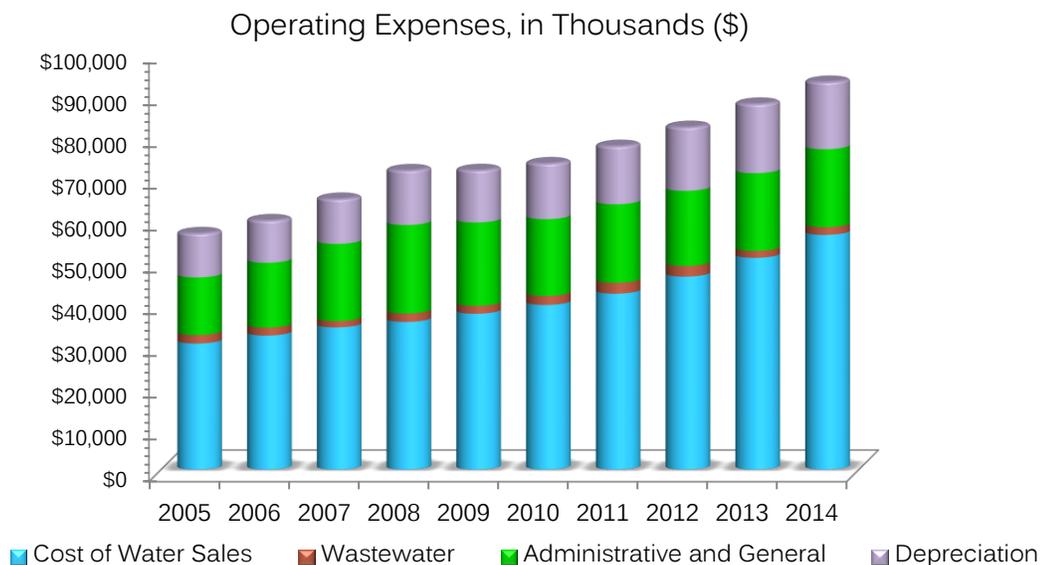
Fiscal Year	Water Sales	Wastewater	Connection and Other Fees	Total	Percent Change
2014	\$ 81,287,164	\$ 2,791,523	\$ 1,946,886	\$ 86,025,573	11.9%
2013	72,187,081	2,625,087	2,069,220	76,881,388	12.4%
2012	63,830,272	2,400,313	2,169,764	68,400,349	8.2%
2011	58,293,184	2,396,385	2,514,647	63,204,216	4.1%
2010	56,249,816	2,299,585	2,137,280	60,686,681	6.3%
2009	52,428,648	2,182,429	2,492,234	57,103,311	2.5%
2008	50,808,825	2,386,285	2,519,735	55,714,845	4.6%
2007	48,605,606	2,604,431	2,040,444	53,250,481	11.3%
2006	43,755,610	2,331,094	1,774,384	47,861,088	10.4%
2005	39,348,056	2,018,596	1,969,263	43,335,915	4.3%



Source: Otay Water District

Operating Expenses by Function - Last Ten Fiscal Years

Fiscal Year	Cost of Water Sales	Wastewater	Administrative and General	Depreciation	Total	Percent Change
2014	\$ 56,068,147	\$ 1,834,465	\$ 18,608,603	\$ 16,055,808	\$ 92,567,023	6.0%
2013	50,600,551	1,638,354	18,550,811	16,545,622	87,335,338	6.8%
2012	46,106,403	2,547,929	17,926,430	15,214,704	81,795,466	5.9%
2011	42,029,819	2,592,823	18,763,380	13,880,206	77,266,228	5.7%
2010	39,338,495	2,169,988	18,320,362	13,297,497	73,126,342	2.3%
2009	37,252,482	1,890,804	19,888,161	12,475,714	71,507,161	0.05%
2008	35,296,002	2,009,876	21,127,922	13,040,572	71,474,372	10.6%
2007	33,994,841	1,508,672	18,418,441	10,729,096	64,651,050	8.6%
2006	32,043,395	1,899,957	15,477,287	10,107,455	59,528,094	5.5%
2005	30,127,087	2,050,643	13,747,611	10,524,134	56,449,475	9.6%

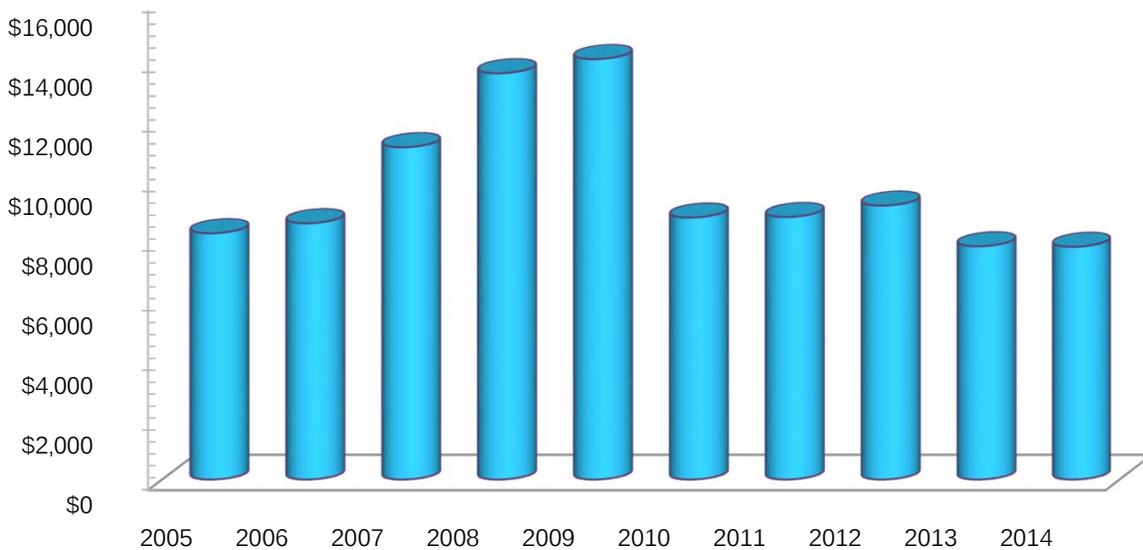


Source: Otay Water District

Non-Operating Revenues by Source - Last Ten Fiscal Years

Fiscal Year	Investment Earnings	Taxes and Assessments	Availability Charges	Rents and Leases	Miscellaneous	Total	Percent Change
2014	\$ 522,286	\$ 3,537,162	\$ 729,961	\$ 1,317,736	\$ 1,661,992	\$ 7,769,137	-0.2%
2013	22,155	3,545,595	707,881	1,276,914	2,233,804	7,786,349	-14.9%
2012	436,596	3,502,155	696,863	1,222,060	3,288,111	9,145,785	4.4%
2011	854,440	3,895,938	653,012	1,185,573	2,174,690	8,763,653	0.2%
2010	1,323,844	3,973,328	670,784	1,083,988	1,693,942	8,745,886	-37.7%
2009	2,252,335	4,586,823	625,065	1,029,506	5,545,344 ⁽²⁾	14,039,073	3.5%
2008	4,538,791	4,591,023	744,722	962,929	2,729,277	13,566,742	22.3%
2007	4,416,342	4,151,956	715,664	914,403	897,216	11,095,581	29.7%
2006	3,188,645	2,779,635	609,099	806,014	1,172,618	8,556,011	4.1%
2005	2,052,292	2,326,526	556,590	766,733	2,518,395 ⁽¹⁾	8,220,536	15.5%

Non-Operating Revenues, in Thousands (\$)



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

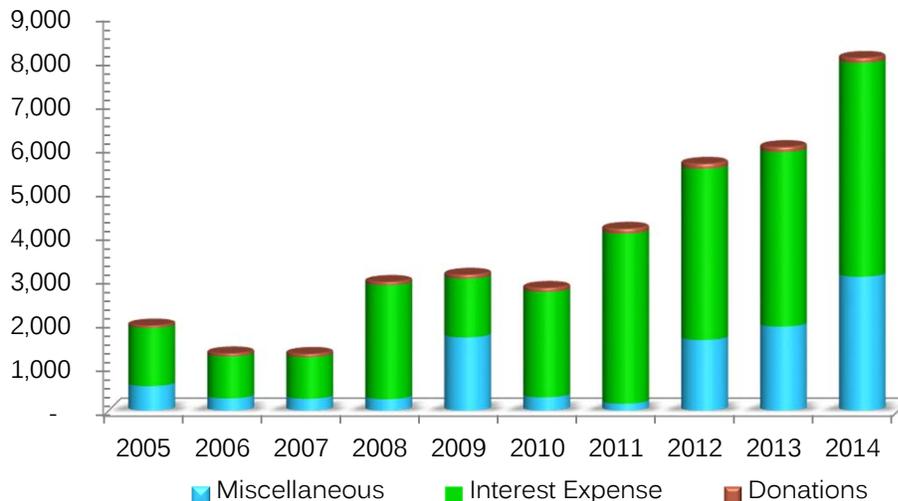
⁽²⁾ The District received a large, one-time legal settlement as a member of a class action lawsuit in Fiscal Year 2009.

Source: Otay Water District

Non-Operating Expenses by Function - Last Ten Fiscal Years

Fiscal Year	Donations ⁽¹⁾	Interest Expense	Miscellaneous	Total	Percent Change
2014	\$ 119,687	\$ 4,872,060	\$ 3,054,447 ⁽³⁾	\$ 8,046,194	33.8%
2013	120,684	3,977,538	1,917,389	6,015,611	6.8%
2012	121,617	3,899,927	1,612,914 ⁽²⁾	5,634,458	35.6%
2011	120,648	3,877,531	158,337	4,156,516	48.0%
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%

Non-Operating Expenses, in Thousands (\$)



⁽¹⁾ Donations are contributions to the Water Conservation Authority formed in 1999. See [Note 8](#) in the Notes to Financial Statements for more information.

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

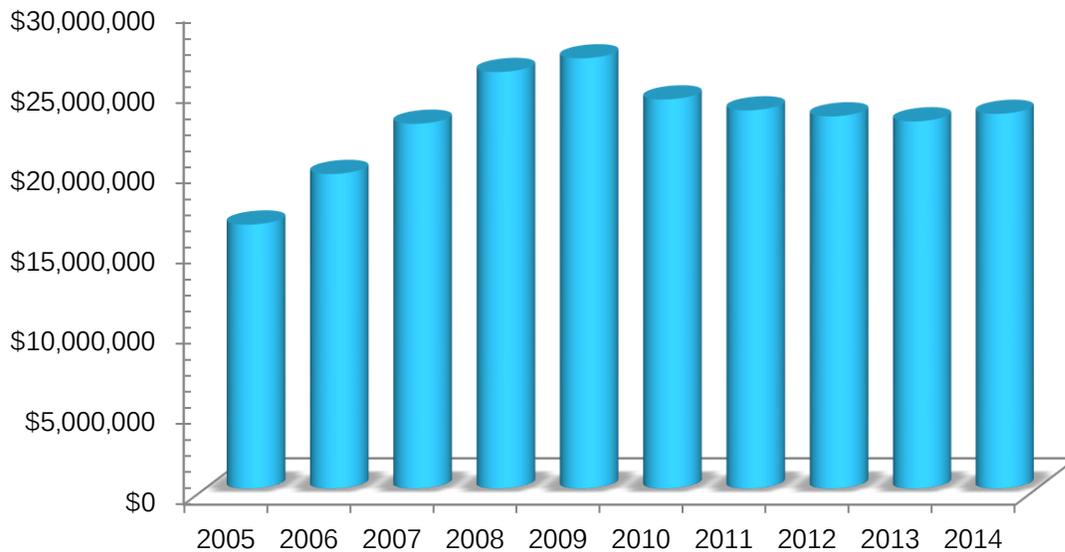
⁽³⁾ Miscellaneous expense includes \$2 million of non-capitalizable expenses which were funded by the 2010 Water Revenue Bonds.

Source: Otay Water District

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

Fiscal Year	Real	Personal	Total	Total Direct Tax Rate
2014	\$ 22,739,584,104	\$ 564,518,965	\$ 23,304,103,069	1.00%
2013	22,253,255,369	583,080,854	22,836,336,223	1.00%
2012	22,556,489,450	588,978,085	23,145,467,535	1.00%
2011	22,997,752,952	521,424,896	23,519,177,848	1.00%
2010	23,671,616,006	527,200,694	24,198,816,700	1.00%
2009	26,269,630,081	482,465,611	26,752,095,692	1.00%
2008	25,333,821,005	568,975,196	25,902,796,201	1.00%
2007	22,166,251,649	518,441,943	22,684,693,592	1.00%
2006	19,204,029,184	361,636,280	19,565,665,464	1.00%
2005	16,121,465,817	301,937,884	16,423,403,701	1.00%

Assessed Valuation of Property, In Thousands (\$)

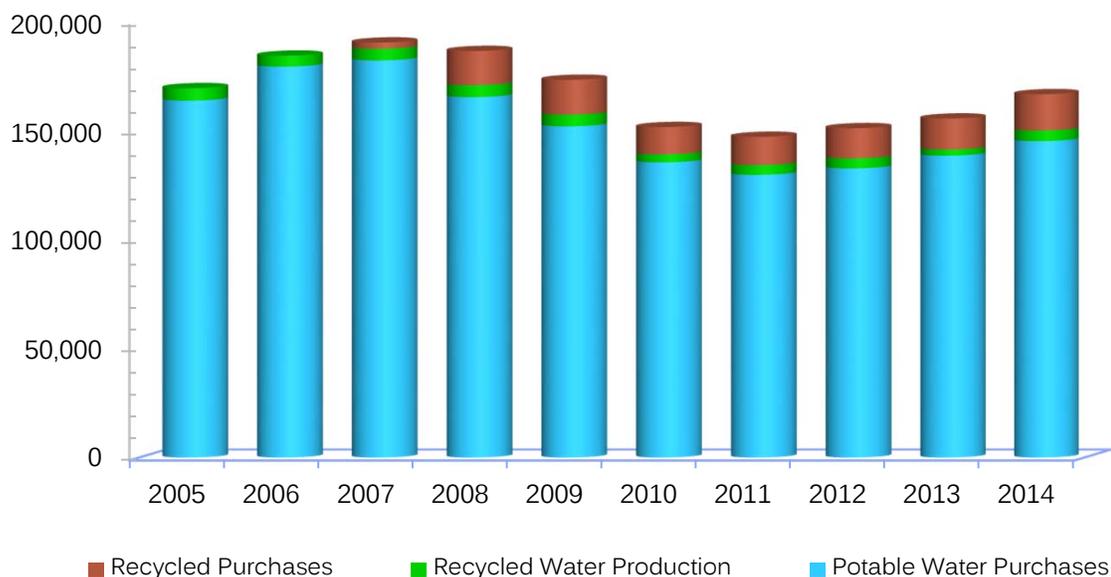


Source: County of San Diego Auditor and Controller

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

Fiscal Year	Potable Water ⁽¹⁾ Per 100 Cubic Feet		Recycled Water ⁽¹⁾ Per 100 Cubic Feet		
	Purchases	Sales	Production	Purchases	Sales
2014	14,554,049	13,720,119	503,120	1,664,630	2,068,330
2013	13,888,496	13,189,042	486,610	1,415,610	1,878,950
2012	13,304,444	12,510,894	285,190	1,381,300	1,652,833
2011	13,007,365	12,363,608	461,060	1,293,310	1,676,775
2010	13,580,004	12,749,799	449,771	1,250,873	1,774,563
2009	15,233,498	14,923,843	367,461	1,593,621	1,991,737
2008	16,572,271	15,575,662	538,227	1,566,148	2,001,137
2007	18,255,735	16,059,464	550,206	284,499 ⁽²⁾	1,920,287
2006	17,972,146	14,723,988	537,400	-	1,722,057
2005	16,412,711	13,708,001	501,114	-	1,447,020

Water Purchases, Productions, and Sales, in Hundred Cubic Feet (HCF)



⁽¹⁾ Rates are not presented on this schedule because the District has multiple water rates for various meter sizes and customer classes and cannot represent rates in a meaningful manner with a weighted average rate. See Water and Sewer rates on [pages 77-79](#) for meter sizes and their corresponding water rates.

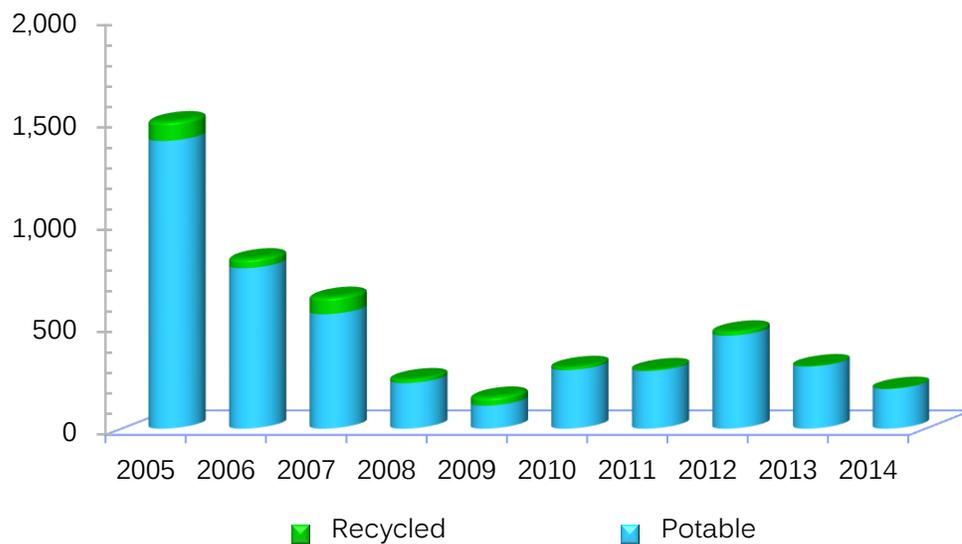
⁽²⁾ The District entered into an agreement with the City of San Diego and began purchasing recycled water from their South Bay Water Reclamation Plant in 2007.

Source: Otay Water District

Meter Sales by Type - Last Ten Fiscal Years

Fiscal Year	Potable	Recycled	Total
2014	195	3	198
2013	305	5	310
2012	457	24	481
2011	283	9	292
2010	288	17	305
2009	113	44	157
2008	224	22	246
2007	563	85	648
2006	788	47	835
2005	1,406	95	1,501

Meter Sales by Type

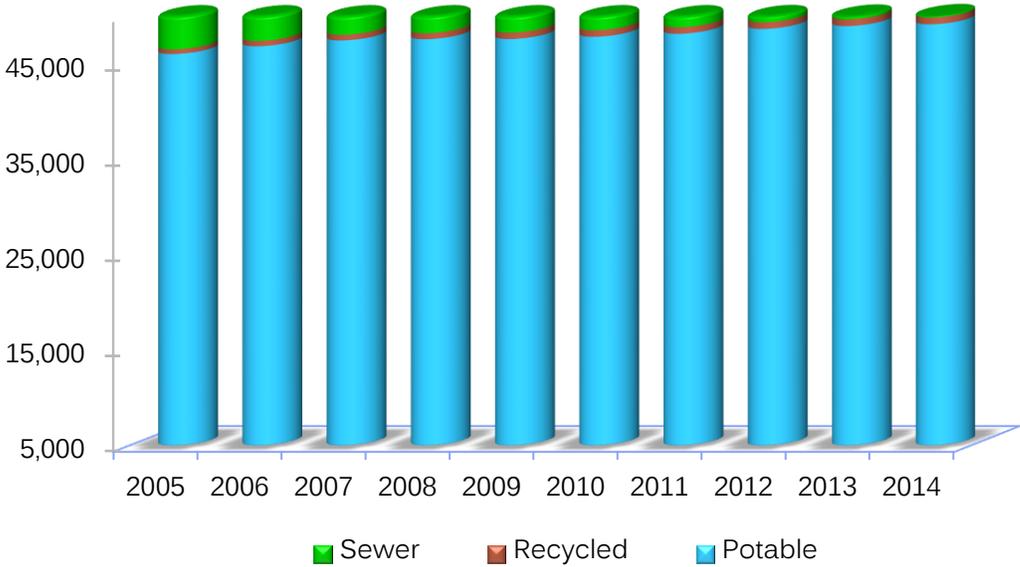


Source: Otay Water District

Number of Customers by Service Type - Last Ten Fiscal Years

Fiscal Year	Potable	Recycled	Sewer	Total
2014	49,148	702	4,657	54,507
2013	48,962	704	4,655	54,321
2012	48,665	696	4,655	54,016
2011	48,154	685	4,655	53,494
2010	47,845	683	4,646	53,174
2009	47,608	671	4,638	52,917
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

Number of Customers by Service Type

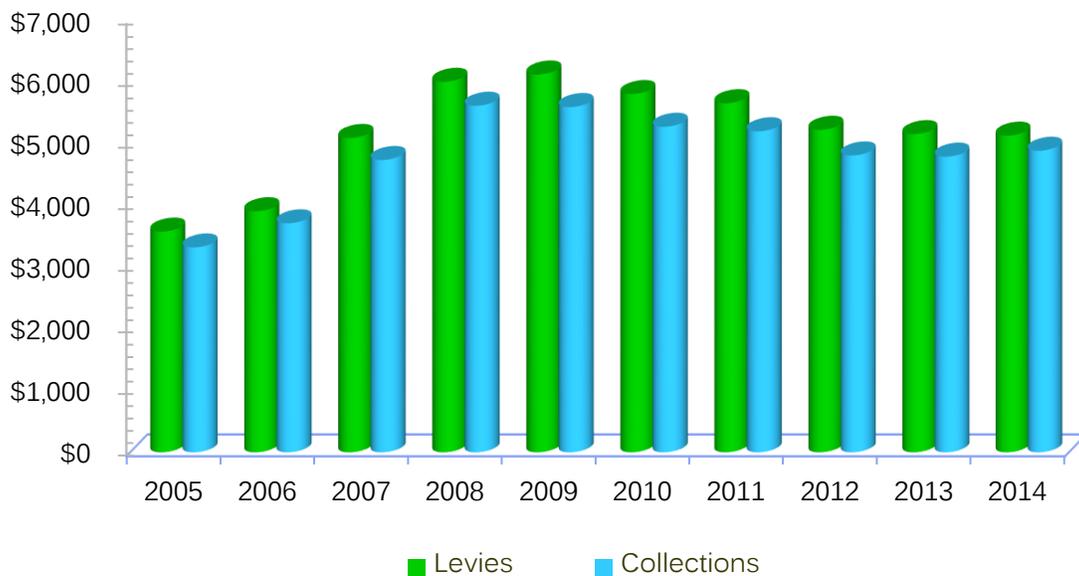


Source: Otay Water District

Property Tax Levies and Collections - Last Ten Fiscal Years

Fiscal Year	1% Property Tax	Special Assessments	Total Levies	Total Collections ⁽¹⁾	End of the Year Percent Collected
2014	\$ 3,032,618	\$ 2,096,409	\$ 5,129,027	\$ 4,885,718	95%
2013	3,014,180	2,139,415	5,153,595	4,790,286	93%
2012	3,115,841	2,108,269	5,224,110	4,809,293	92%
2011	3,156,446	2,497,117	5,653,563	5,199,833	92%
2010	3,622,861	2,179,270	5,802,131	5,272,728	91%
2009	3,661,961	2,455,211	6,117,172	5,591,554	91%
2008	3,437,810	2,561,574	5,999,384	5,612,821	94%
2007	2,689,068	2,403,275	5,092,343	4,735,879	93%
2006	1,420,049	2,489,123	3,909,172	3,713,714	95%
2005	1,173,319	2,406,521	3,579,840	3,324,186	93%

Levies and Collections, in Thousands (\$)



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

Source: Otay Water District

Water Fixed Rates - Last Ten Fiscal Years

Fixed Rates	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
-------------	------	------	------	------	------	------	------	------	------	------

System Fee by Meter Size

Residential

3/4"	\$ 16.19	\$ 16.74	\$ 14.58	\$ 14.58	\$ 14.58	\$ 13.83	\$ 12.30	\$ 11.30	\$ 10.25	\$ 10.25
1"	22.87	21.26	18.52	18.52	18.52	17.56	19.80	18.15	16.50	16.50
1.5"	39.58	32.57	28.37	28.37	28.37	26.90	51.95	35.75	32.50	32.50

Non-Residential & Others

3/4"	16.19	16.74	14.58	14.58	14.58	13.83	24.00	22.00	20.00	20.00
1"	22.87	21.26	18.52	18.52	18.52	17.56	36.95	33.90	30.80	30.80
1.5"	39.58	32.57	28.37	28.37	28.37	26.90	51.95	47.50	43.30	43.30
2"	59.62	46.13	40.18	40.18	40.18	38.10	64.95	59.60	54.20	54.20
3"	113.08	82.29	71.68	71.68	71.68	67.98	104.55	95.90	87.20	87.20
4"	173.22	122.99	107.13	107.13	107.13	101.59	119.70	109.80	99.80	99.80
6"	340.29	236.02	205.59	205.59	205.59	194.96	239.20	219.45	199.50	199.50
8"	540.76	371.64	323.73	323.73	323.73	307.00	-	-	-	-
10"	774.64	529.88	461.57	461.57	461.57	437.71	456.60	418.90	380.50	380.50

CWA and MWD Pass-through charges by Meter Size

Residential

3/4"	14.45	13.28	14.01	11.82	9.77	4.33	3.85	3.55	2.85	2.50
1"	26.79	22.12	23.33	19.69	16.28	6.91	6.15	5.65	4.55	4.00
1.5"	60.61	44.31	46.74	39.44	32.61	13.04	11.60	10.65	8.55	7.50

Non-Residential & Others

3/4"	14.45	13.28	14.01	11.82	9.77	4.33	3.85	3.55	2.85	2.50
1"	26.79	22.12	23.33	19.69	16.28	6.91	6.15	5.65	4.55	4.00
1.5"	60.61	44.31	46.74	39.44	32.61	13.04	11.60	10.65	8.55	7.50
2"	103.08	70.85	74.74	63.07	52.15	22.54	20.05	18.45	14.80	13.00
3"	219.23	141.71	149.48	126.14	104.30	41.53	36.95	34.05	27.35	19.20
4"	351.09	221.43	233.58	197.17	162.98	70.98	63.15	58.20	46.75	41.00
6"	718.69	442.80	467.09	394.17	325.92	129.82	115.50	106.45	85.50	75.00
8"	1,160.59	708.53	747.39	630.71	521.51	374.62	-	-	-	-
10"	1,670.55	1,015.06	1,070.74	903.58	749.61	538.52	300.30	276.75	222.30	195.00

Fire Services

All Types			30.11	30.11	30.11	28.55	25.40	23.30	21.20	21.20
Lower than 4 inch	21.14	34.57								
Higher than 4 inch	28.49	34.57								

Source: Otay Water District

Water Variable Rates - Last Ten Fiscal Years

Usage Rate ⁽¹⁾	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<i>Residential</i>										
Tier 1	\$ 1.86	\$ 1.73	\$ 1.58	\$ 1.49	\$ 1.35	\$ 1.12	\$ 1.12	\$ 1.08	\$ 1.05	\$ 1.01
Tier 2	2.90	2.69	2.45	2.31	2.10	1.74	1.85	1.78	1.73	1.67
Tier 3	3.77	3.50	3.19	3.00	2.73	2.26	2.01	1.94	1.88	1.81
Tier 4	5.80	5.39	4.92	4.63	4.21	3.48	2.94	2.83	2.75	2.65
Tier 5	-	-	-	-	-	-	-	-	-	-
<i>Master Meter</i>										
Tier 1	2.86	2.66	2.43	2.29	2.08	1.72	1.85	1.78	1.73	1.67
Tier 2	3.71	3.45	3.15	2.97	2.70	2.23	2.01	1.94	1.88	1.81
Tier 3	5.73	5.32	4.85	4.57	4.15	3.43	2.94	2.83	2.75	2.65
<i>Public Agency & Commercial</i>										
<i>Publicly-Owned</i> ⁽²⁾							2.06	1.99	1.93	1.86
<i>Commercial & Others</i> ⁽³⁾							1.98	1.91	1.85	1.78
<i>Government Fee</i> ⁽²⁾	0.31	0.29	0.29	0.29	0.29	0.29	0.28	-	-	-
Tier 1	3.06	2.84	2.59	2.44	2.22	1.84				
Tier 2	3.14	2.92	2.66	2.50	2.27	1.88				
Tier 3	3.19	2.96	2.70	2.54	2.31	1.91				
<i>Landscape, Agricultural & Construction</i>										
Tier 1	4.17	3.87	3.53	3.32	3.02	2.50				
Tier 2	4.25	3.95	3.60	3.39	3.08	2.55				
Tier 3	4.32	4.01	3.66	3.45	3.14	2.60				
<i>Recycled</i>										
<i>Recycled (Commercial)</i>							1.67	1.65	1.57	1.51
<i>Recycled (Publicly-Owned)</i> ⁽²⁾							1.75	1.73	1.65	1.59
Tier 1	3.56	3.31	3.02	2.84	2.58	2.13				
Tier 2	3.61	3.35	3.06	2.88	2.62	2.17				
Tier 3	3.68	3.42	3.12	2.94	2.67	2.21				
<i>Energy Pumping Fee</i>										
Per 100 cubic feet ⁽⁴⁾	0.048	0.042	0.045	0.044	0.038	0.034	0.034	0.032	0.032	0.032

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

⁽²⁾ An additional \$.31 per unit was charged to governmental customers this is in lieu of tax revenues. In the past, an additional \$.08 is added to the publicly-owned companies water rate.

⁽³⁾ Others include agricultural and temporary meters.

⁽⁴⁾ Water customers are charged an energy pumping charge based on the quantity of water used and the elevation to which the water has been lifted to provide service. The energy pumping charge is the rate of \$.048 per 100 cubic feet of water for each 100 feet of lift above the base elevation of 450 feet. All water customers are in one of twenty-nine zones based on elevation.

Source: Otay Water District

Sewer Variable and Fixed Rates - Last Ten Fiscal Years

Description	2014	2013**	2012	2011	2010	2009	2008*	2007	2006	2005
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Usage Fee

Residential

1 Unit	\$ 2.46	\$ 2.35	\$ 1.77	\$ 1.67	\$ 1.56	\$ 1.47	\$ 1.41	-	-	-
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Non-Residential

Low Strength	2.46	2.35								
Medium Strength	3.53	3.37								
High Strength	5.63	5.37								
Sewer Rate Per ASU			41.75	39.39	36.88	34.79	33.26	\$ 32.70	\$ 30.90	\$ 26.90

Fixed Rates

Residential

3/4"	15.89	14.38	12.26	11.57	10.80	10.20	9.75
1"	15.89	14.38	17.88	16.87	15.75	14.90	14.25

Non-Residential

3/4"	27.07	25.83
1"	39.86	38.03
1.5"	71.82	68.53
2"	110.17	105.12
3"	199.66	190.52
4"	327.51	312.51
6"	647.12	617.48
8"	1,030.67	983.46
10"	1,478.12	1,410.42

Calculation of Monthly Residential Sewer Billing:

*Bill calculation prior to calendar year 2008: Sewer Rate per ASU ⁽¹⁰⁾

Bill calculation beginning calendar year 2008: (Winter Average ⁽⁹⁾ x .85 ⁽²⁾ x Usage Fee) + Fixed Fee ⁽⁸⁾

Calculation of Monthly Non-Residential Sewer Billing:

**Bill calculation prior to calendar year 2012: ((Flow in gallons per day ⁽¹⁾ x .85 ⁽²⁾/250 ⁽³⁾)) x Strength Factor ⁽⁴⁾

Bill calculation beginning calendar year 2013: ((Average Annual Usage ⁽⁵⁾ x .85 ⁽²⁾/250 ⁽³⁾) x Usage Fee ⁽⁷⁾) + Fixed Fee ⁽⁸⁾

Footnotes:

⁽¹⁾ Flow in gallons per day (Flow) is calculated using monthly readings from account's water meter.

⁽²⁾ Flow is reduced by 15 percent to reflect that not all water purchased is disposed of into the public sewer system.

⁽³⁾ Flow is divided by 250 gallons per day to convert it in terms of residential equivalence.

⁽⁴⁾ Strength factors for business customers are categorized as low, medium or high strength.

⁽⁵⁾ The average annual usage is defined as the units of water billed from January through December of previous year.

⁽⁶⁾ The usage fee is based on the commercial account's strength factor as shown on the usage fee table as being either Low, Medium, or High.

⁽⁷⁾ The fixed rate is based on the size of the water meter.

⁽⁸⁾ The winter average for a residential customer is defined as the units of water billed from January-April of the previous calendar year divided by the number of months of service.

⁽⁹⁾ The ASU (assigned service unit) is then multiplied by the district-wide sewer rate.

Source: Otay Water District

Ten Largest Customers - Current Year and Nine Years Ago

FISCAL YEAR 2014			
Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	\$ 3,595,360	4.4%
2. State of California	Publicly Owned	1,130,281	1.4%
3. County of San Diego	Publicly Owned	935,465	1.2%
4. Eastlake III Community	Commercial	841,818	1.0%
5. Eastlake Country Club	Commercial	618,403	0.8%
6. Chula Vista School District	Publicly Owned	510,535	0.6%
7. Highlands Golf Company, LLC	Commercial	464,298	0.6%
8. SANDAG	Commercial	404,250	0.5%
9. Sweetwater School District	Publicly Owned	390,445	0.5%
10. City of San Diego	Publicly Owned	362,662	0.4%
Total (10 Largest)		\$ 9,253,517	11.4%
Other Customers		72,033,647	88.6%
Total Water Sales		\$ 81,287,164	100.0%

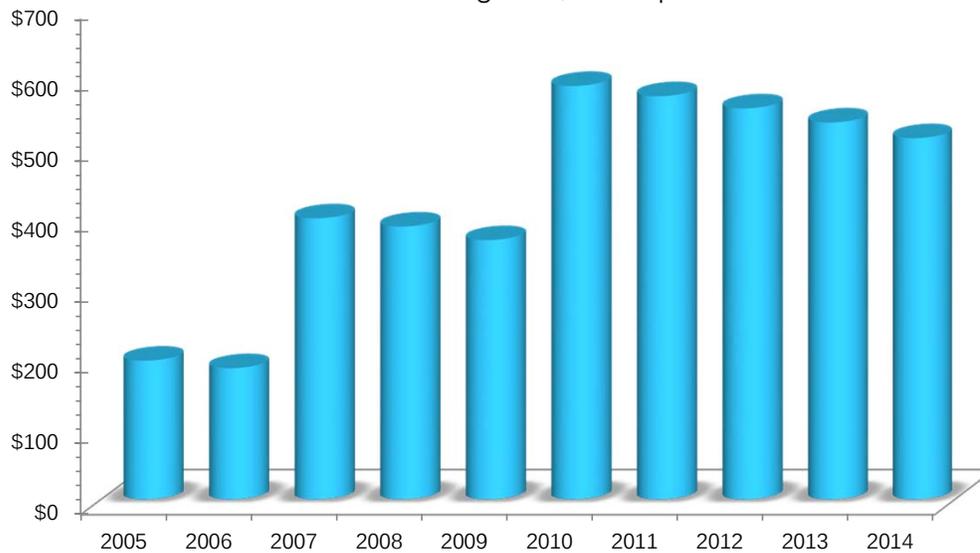
FISCAL YEAR 2005			
Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	\$ 1,011,094	2.6%
2. State of California	Publicly Owned	841,516	2.1%
3. County of San Diego	Publicly Owned	689,928	1.8%
4. Eastlake III	Business/Irrigation (Recycled)	494,954	1.3%
5. Steele Canyon	Irrigation (Potable Permanent)	435,783	1.1%
6. McMillin	Construction (Potable)	379,118	1.0%
7. Signs & Pinnick, Inc.	Irrigation (Potable Temporary)	374,752	1.0%
8. Eastlake Country Club	Irrigation (Recycled)	333,671	0.8%
9. California Bank & Trust	Irrigation (Recycled)	303,053	0.8%
10. Singing Hills	Residential/Irrigation (Potable)	281,216	0.7%
Total (10 Largest)		\$ 5,145,085	13.2%
Other Customers		34,202,971	86.8%
Total Water Sales		\$ 39,348,056	100.0%

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⁾
2014	213,000	\$ 5,833,563	\$46,475,314	\$ 56,508,490	\$ -	-	\$ 108,817,367	\$ 510.88	0.99%
2013	211,000	6,384,918	47,920,525 ⁽²⁾	58,158,987	-	-	112,464,430	533.01	1.06%
2012	208,500	6,921,271	58,023,740	50,321,421	-	-	115,266,432	552.84	1.14%
2011	206,500	6,803,577	59,715,531	51,180,822	6,010	-	117,705,940	570.00	1.19%
2010	206,000	7,283,127	61,489,612	51,255,224	359,744	-	120,387,707	584.41	1.28%
2009	195,000	7,726,575	63,213,693	-	701,516	-	71,641,784	367.39	0.83%
2008	191,500	8,093,302	64,892,774	-	1,031,730	-	74,017,806	386.52	0.85%
2007	190,000	8,445,029	65,851,790	-	1,350,778	-	75,647,597	398.15	0.89%
2006	189,000	8,776,755	24,909,352	-	1,659,037	51,589	35,396,733	187.28	0.44%
2005	186,000	9,093,482	25,653,607	-	1,956,871	100,666	36,804,626	197.87	0.49%

Outstanding Debt, Per Capita



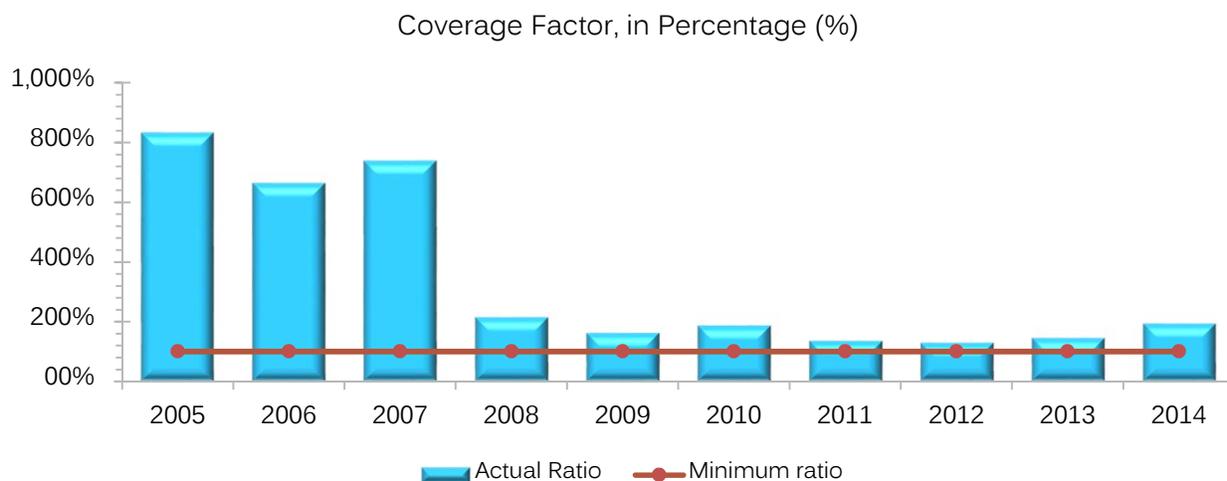
⁽¹⁾ See the Demographics and Economic Statistics schedule on [page 86](#) for personal income data.

⁽²⁾ 2004 COPS were refunded with the issuance of 2013 Water Revenue Refunding Bonds in June 2013.

Source: Otay Water District

Pledged Revenue Coverage - Last Ten Fiscal Years

Fiscal Year	Adjusted Revenues ⁽¹⁾	Adjusted Operating Expenses ⁽²⁾	Net Revenues Available for Debt Service	Debt Service Requirements ⁽⁴⁾			Coverage Factor ⁽³⁾
				Principal	Interest	Total	
2014	\$90,948,021	\$75,575,679	\$15,372,342	\$2,935,000	\$4,895,622	\$7,830,622	196%
2013	81,778,447	70,228,987	11,549,460	2,800,000	4,988,640	7,788,640	148%
2012	74,484,691	64,028,686	10,456,005	1,850,000	6,050,746	7,900,746	132%
2011	69,653,627	60,117,245	9,536,382	1,795,000	5,084,450	6,879,450	139%
2010	65,573,058	57,084,904	8,488,154	1,745,000	2,720,258	4,465,258	190%
2009	63,739,773	57,076,567	6,663,207	1,700,000	2,342,048	4,042,048	165%
2008	63,732,275	56,420,286	7,311,989	800,000	2,567,884	3,367,884	217%
2007	69,442,301	52,413,282	17,029,019	790,000	1,513,834	2,303,834	739%
2006	58,572,428	47,520,682	11,051,746	745,000	917,790	1,662,790	665%
2005	56,597,040	43,936,109	12,660,931	650,000	869,715	1,519,715	833%



⁽¹⁾ Adjusted revenues exclude sewer revenues and taxes collected for Improvement District 27 and are inclusive of capacity fees.

⁽²⁾ Adjusted operating expenses exclude sewer expenses and depreciation expense.

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

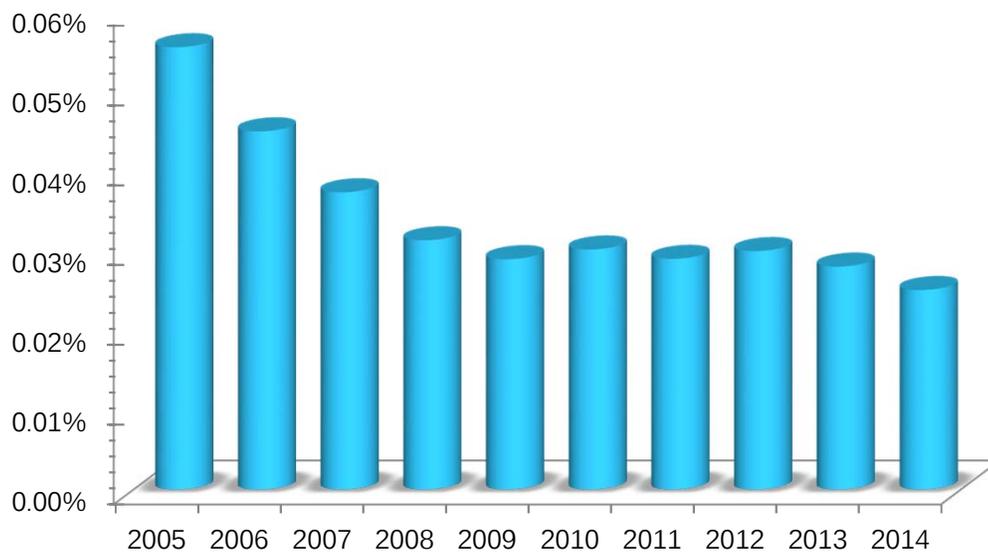
⁽⁴⁾ Pledge debts are Certificates of Participation (COPS) and Revenue Bonds.

Source: *Otay Water District*

Ratios of General Bonded Debt Outstanding - Last Ten Fiscal Years

Fiscal Year	Population Estimate	Assessed Valuation	Net Bonded Debt	Net Bonded Debt to Assessed Valuation	Net Bonded Debt Per Capita
2014	213,000	\$ 23,304,103,069	\$ 5,833,563	0.03%	27.39
2013	211,000	22,836,336,223	6,384,918	0.03%	30.26
2012	208,500	23,145,467,535	6,921,271	0.03%	33.20
2011	206,500	23,519,177,848	6,803,577	0.03%	32.95
2010	206,000	24,198,816,700	7,283,127	0.03%	35.35
2009	195,000	26,752,095,692	7,726,575	0.03%	39.62
2008	191,500	25,902,796,201	8,093,302	0.03%	42.26
2007	190,000	22,684,693,592	8,449,025	0.04%	44.47
2006	189,000	19,565,665,464	8,776,755	0.04%	46.44
2005	186,000	16,423,403,701	9,093,482	0.06%	48.89

Bonded Debt Ratios, in Percentage (%)



Source: Otay Water District

Computation of Direct and Overlapping Bonded Debt

June 30, 2014

2013-14 Assessed Valuation: \$23,304,103,069
 Redevelopment Incremental Valuation: 268,264,662
 Total Overlapping Tax Increment Debt 1.35%

	Total Debt		District's Share of
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>6/30/14</u>	<u>% Applicable (1)</u>	<u>Debt 6/30/14</u>
Metropolitan Water District	\$ 132,275,000	1.064%	\$ 1,407,406
Otay Water District Improvement District No. 27	5,700,000	100.000	5,700,000
Grossmont-Cuyamaca Community College District	256,139,481	15.553	39,837,373
Southwestern Community College District	230,589,345	40.251	92,814,517
Grossmont Union High School District	440,000,095	15.974	70,285,615
Sweetwater Union High School District	354,404,415	48.065	170,344,482
Chula Vista City School District	91,585,000	60.115 & 23.413	43,678,703
San Ysidro School District	123,382,611	51.542	63,593,865
Other School Districts	38,791,763,631	Various	51,316,520
Grossmont Healthcare District	220,567,076	14.202	31,324,936
City of Chula Vista Community Facilities District	186,220,000	100.000	186,220,000
Chula Vista City School District Community Facilities Districts	4,440,000	100.000	4,440,000
Sweetwater Union High School District Community Facilities Districts	139,688,004	10.894-100.	130,675,505
City 1915 Act Bonds	30,676,388	7.3132-100.	27,400,250
California Statewide Communities Development Authority			
San Diego County / Venture Community Center Assessment District	1,039,261	100.000	<u>1,039,261</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 920,078,433

Ratios to 2013-14 Assessed Valuation:

Direct Debt (\$5,700,000)0.02%
 Total Overlapping Tax and Assessment Debt.....3.95%

DIRECT AND OVERLAPPING GENERAL FUND DEBT:

San Diego County General Fund Obligations	\$ 379,835,000	5.899%	\$ 22,406,467
San Diego County Pension Obligations	720,855,256	5.899	42,523,252
San Diego Superintendent of Schools Certificates of Participation	16,125,000	5.899	951,214
Otay Water District Certificates of Participation & Revenue Bonds	101,555,000	100.000	101,555,000
Grossmont and Southwestern Community College District General Fund Obligations	2,430,000	15.553 & 40.251	664,435
Grossmont Union High School District Certificates of Participation	800,000	15.974	127,792
Sweetwater Union High School District Certificates of Participation	42,475,000	48.065	20,415,609
Chula Vista City School District Certificates of Participation	141,895,000	60.115	85,300,179
San Ysidro School District Certificates of Participation	42,013,755	51.542	21,654,730
Other School District Certificates of Participation	7,960,000	Various	1,976,388
City of Chula Vista Certificates of Participation	121,650,000	68.129	82,878,929
City of San Diego General Fund Obligations	546,930,000	0.891	4,873,146
San Miguel Consolidated Fire Protection District Certificates of Participation	4,575,000	52.463	<u>2,400,182</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 387,727,323
Less: Otay Water District Certificates of Participation & Revenue Bonds (100% self-supporting)			<u>101,555,000</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 286,172,323

OVERLAPPING TAX INCREMENT DEBT (Successor Agency): \$ 21,625,000 16.781% \$ 3,628,891

TOTAL GROSS DIRECT DEBT \$ 107,255,000
TOTAL NET DIRECT DEBT \$ 5,700,000
TOTAL OVERLAPPING DEBT \$1,204,179,647

GROSS COMBINED TOTAL DEBT \$1,311,434,647 (2)
NET COMBINED TOTAL DEBT \$1,209,879,647

- (1) The percentage of overlapping debt applicable to the District is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the water district divided by the overlapping district's total taxable assessed value.
 (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to Adjusted Assessed Valuation:

Gross Total Direct Debt (\$107,255,000)0.46%
 Net Total Direct Debt (\$5,700,000)0.02%
 Gross Combined Total Debt.....5.63%
 Net Combined Total Debt.....5.19%

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

Principal Employers - Current Year and Nine Years Ago

Employer	2014			2005		
	Employees	Rank	% of Total County Employment	Employees	Rank	% of Total County Employment
State of California	43,300	1	2.90%	38,700	2	2.71%
UC San Diego	28,672	2	1.92%	26,654	3	1.87%
Federal Government ⁽¹⁾	24,200	3	1.62%	38,900	1	2.73%
U.S. Department of Defense ⁽¹⁾	21,500	4	1.44%			
County of San Diego	20,100	5	1.35%	16,803	5	1.18%
City of San Diego	18,000	6	1.21%	12,384	7	0.87%
Sharp HealthCare	15,865	7	1.06%	13,175	6	0.92%
Scripps Health	13,750	8	0.92%	10,617	8	0.74%
San Diego Unified School District	13,559	9	0.91%	21,073	4	1.48%
Kaiser San Diego Medical Center	8,900	10	0.60%	7,121	9	0.50%
US Postal Service, San Diego District		-		6,464	10	0.44%
Total	<u>207,846</u>		<u>13.93%</u>	<u>191,891</u>		<u>13.44%</u>

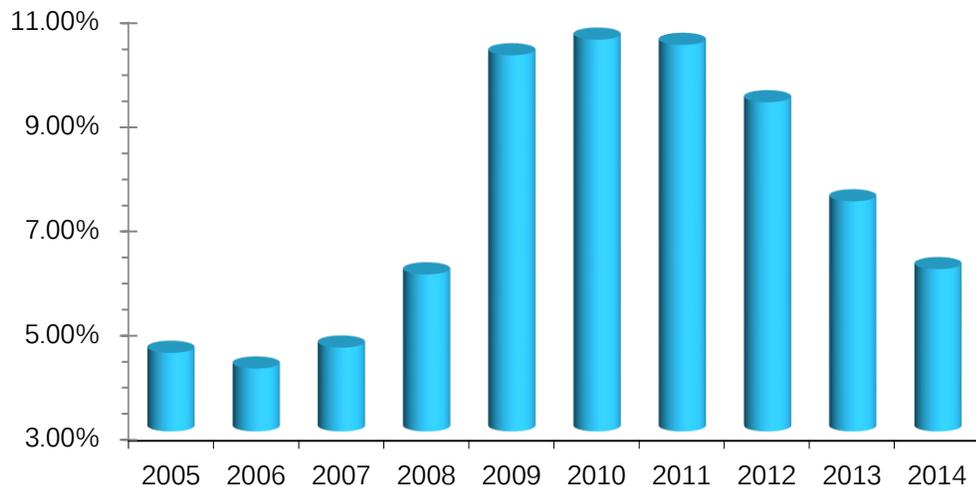
⁽¹⁾ For Fiscal Years ending June 30, 2014 and later, the Federal Government and U.S. Department of Defense figures were based on each individual respective units employees. In prior Fiscal Years, the Federal Government and U.S. Department of Defense figures were summarized combined totals of the underlying units.

Source: California Labor Market Info, San Diego Sourcebook, and San Diego Business Journal.

Demographic and Economic Statistics - Last Ten Fiscal Years

Fiscal Year	Population	Personal Income (in 000'S)	Per Capita Personal Income	Unemployment Rate
2014 ⁽¹⁾	3,220,300	\$ 168,400,000	\$ 51,821	6.10%
2013	3,182,100	161,100,000	50,288	7.40%
2012	3,143,429	154,200,000	48,674	9.30%
2011	3,140,069	149,600,000	47,776	10.40%
2010	3,095,313	137,525,000	45,627	10.50%
2009	3,173,407	134,696,000	44,412	10.20%
2008	3,001,072	143,783,000	45,728	6.00%
2007	2,959,734	131,499,657	44,830	4.60%
2006	2,948,362	126,193,721	42,801	4.20%
2005	2,941,658	118,792,540	40,383	4.50%

Unemployment Rate, in Percentage (%)

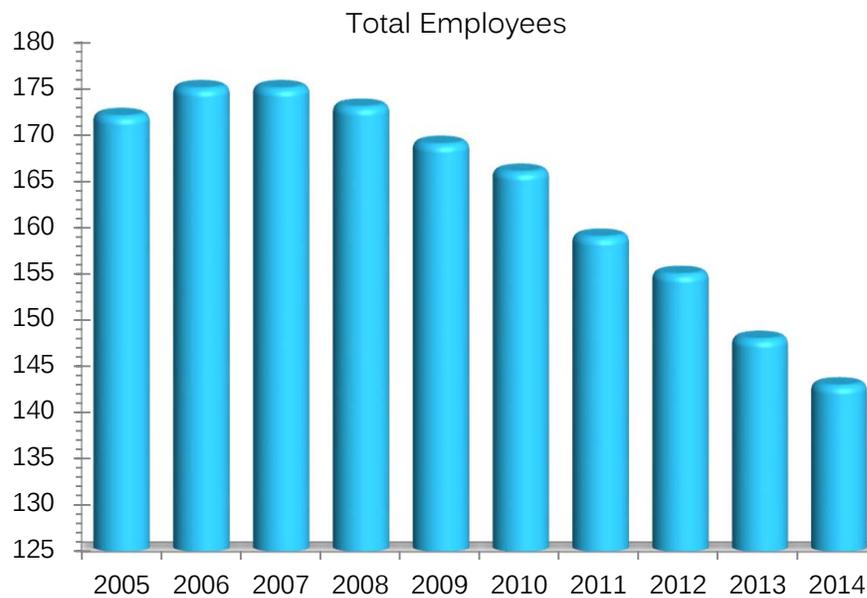


⁽¹⁾ Forecast

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

Number of Employees by Function - Last Ten Fiscal Years

Department	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Manager	5	5	5	6	6	6	6	6	6	6
Finance	29	30	32	35	38	37	36	35	34	34
Operations/Maintenance	61	65	66	66	68	70	71	71	72	71
Engineering	20	19	21	21	21	23	27	31	15	13
Administrative Services	16	17	18	19	20	20	20	19	19	20
IT and Strategic Planning	12	12	13	12	13	13	13	13	12	11
Development Services ⁽¹⁾	-	-	-	-	-	-	-	-	17	17
Total	143	148	155	159	166	169	173	175	175	172



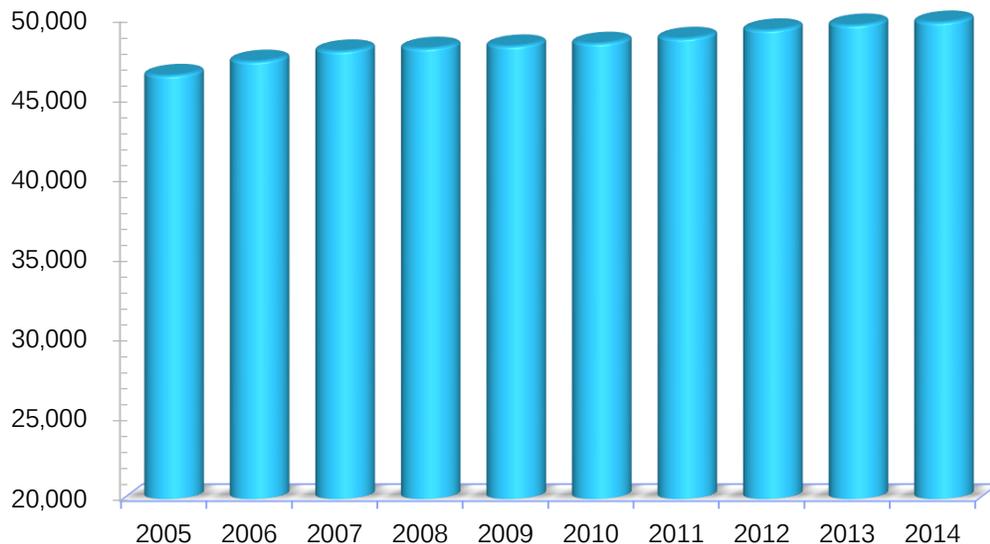
⁽¹⁾ Development Services was broken out from the Engineering and Planning Department in FY-2005 and then re-combined in FY-2007.

Source: Otay Water District

Active Meters by Size - Last Ten Fiscal Years

Meter Size	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
3/4" & 5/8"	44,375	44,354	44,376	44,065	43,815	43,641	43,551	43,544	43,070	42,420
1"	2,557	2,412	2,099	1,881	1,815	1,804	1,747	1,618	1,514	1,364
1-1/2"	1,332	1,333	1,326	1,317	1,317	1,309	1,275	1,242	1,199	1,147
2"	1,293	1,295	1,277	1,278	1,292	1,299	1,283	1,262	1,242	1,199
3"	77	76	75	75	75	75	76	76	69	67
4"	189	169	180	193	184	202	258	275	277	289
6"	18	18	19	21	22	21	19	24	27	27
Others	9	9	9	9	8	9	10	7	11	12
Total	49,850	49,666	49,361	48,839	48,528	48,360	48,219	48,048	47,409	46,525
% Change	0.4%	0.6%	1.1%	0.6%	0.3%	0.3%	0.4%	1.3%	1.9%	3.5%
Increase	184	305	522	311	168	141	171	639	884	1,594

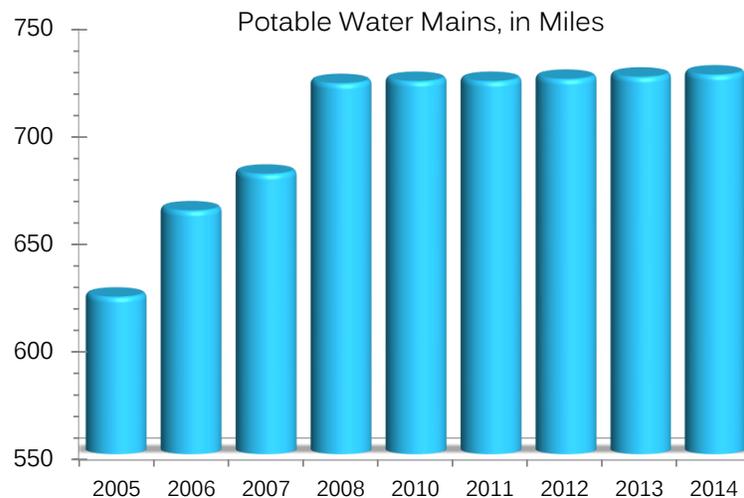
Active Meters by Size



Source: Otay Water District

Operating and Capital Indicators - Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Water System										
Service Area (Square Miles)	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5
Miles of Potable Water Main	726	725	724	723	723	722	722	680	663	623
Number of Operational Storage Reservoirs in Service	40	40	40	40	40	38	36	37	37	36
Water Storage Capacity (in Acre-Feet)	668.03	667.79	670.83	673.84	663.8	655.5	605.5	601.7	601.7	582.4
Total Water Connections (No. of Meters in Service)	49,260	49,150	49,493	49,094	48,662	48,522	48,376	47,615	47,409	46,525
Number of Pump Stations	21	21	21	21	21	21	21	21	22	21
Number of Potable Water Valves	20,460	20,317	20,317	19,522	19,522	19,192	19,131	18,721	18,042	17,696
Sewer System										
Miles of Sewer Lines	88.0	88.0	88.0	88.0	88.0	88.0	88.0	86.2	86.2	85.9
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 (in Million Gallons)	405	422	423	481	474	483	503	514	528	506
Recycled System										
Miles of Recycled Water Mains	102.0	99.0	99.0	98.0	98.0	97.0	93.0	83.0	77.6	76.4
Number of Pumping Facilities	3	3	3	3	3	3	3	3	2	2
Number of Operational Storage Reservoirs in Service	4	4	4	4	4	4	4	4	4	4
Number of Acre-Feet Storage	134.2	134.1	134.1	134.1	134.1	133.2	135.0	134.1	97.3	97.3
Number of Recycled Water Valves	1,473	1,430	1,430	1,380	1,380	1,338	1,314	1,245	1,189	1,155



Source: Otay Water District