



Spring Valley, California

Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013



Otay Water District

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2013

BOARD OF DIRECTORS

Jose Lopez, Division 4	President
Mitchell Thompson, Division 2	Vice President
David Gonzalez, Jr., Division 1	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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...Dedicated to Community Service

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TELEPHONE: 670-2222, AREA CODE 619

October 22, 2013

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, 2013.

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

The District's financial statements have been audited by White Nelson Diehl Evans LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2013, 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, 2013 and are presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

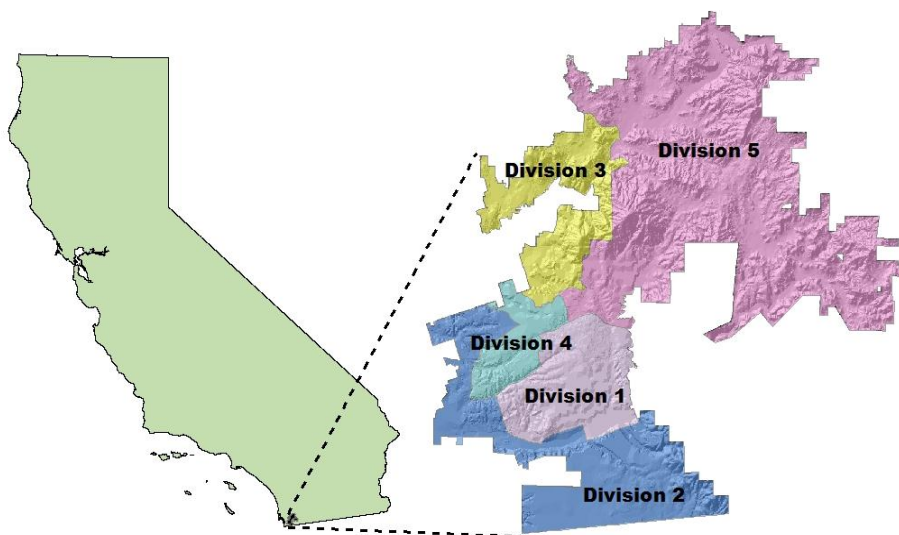
REPORTING ENTITY

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 9](#).

Over the last 57 years, the District has grown from a handful of customers and two employees to become an organization operating a network of more than 912 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 48,911 potable and 709 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 with the CWA to have the neighboring Helix Water District treat imported water, on behalf of the Otay Water District, at their Levy Water Treatment Plant. This action has brought

regional water treatment closer to our customers and helped reduce dependence on water treatment facilities located outside of San Diego County.

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



The District also owns and operates a wastewater collection and recycling system providing public sewer service to approximately 4,657 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 and ongoing home foreclosures; however, this slowdown appears to have leveled off as the District's Public Services Division approved on average 24 permits per month, and sold 310 water meters in fiscal 2012-2013. The coming years will continue to pose challenges for those in California's water community. The region continues to face challenges and uncertainty due to the environment constraints surrounding the Sacramento-San Joaquin Bay Delta, the source of 30% of Southern California's water supply. However, these constraints are being actively addressed by the State Water Project and the Bay Delta Conservation Plan (BDCP). The BDCP is 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. 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 2013, it is estimated that the District served 211,000 residents. The San Diego Association of Governments (SANDAG), the regional planning agency, has estimated the District's approximate growth will be 1.8% 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 2012 – 2014) is the fourth in a series of three-year plans that began in 2003.

The Strategic Plan is focused on the District's transformation from a growth-centric to a maintenance-based organization. Where growth has been a significant focus in prior years, today we have become equally focused in managing long-term maintenance and replacement of our infrastructure. Performance metrics and targets are a critical element of the Strategic Plan but differ from Strategic Plan objectives. Objectives identify the action items that are necessary to achieve the strategic vision. Performance 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. It is designed and presented for the general needs of the District, its staff, and customers. It is a comprehensive and balanced financial plan that features District services, resources and their allocation, financial policies, 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 \$86,101,100 for Fiscal Year 2014. Revenues from potable and recycled water are projected to be \$75,373,600, about \$5,916,800 (7.8%) more than the Fiscal Year 2013 budget. Water sales volumes are expected to increase by less than 1% versus FY 2013. This slight increase is the net result of the economic recovery and conservation efforts. In addition, rate increases are essential to keep pace with rising wholesale water costs. Sewer revenues are projected to be \$2,701,600, about \$146,400 more than the Fiscal Year 2013. This increase, from higher sewer rates, is primarily to cover \$18.6 million of capital projects over the next six years. The remaining budgeted revenues of \$7.7 million come from various special fees, assessments, and miscellaneous income.



The 2013-14 Capital Improvement Program (CIP) budget consists of 63 projects and a budget of \$13.8 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth. This year's CIP budget decreased by \$4.2 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 challenges facing the Sacramento-San Joaquin Bay Delta, the source of 30 percent of Southern California's water supply, are being addressed by the 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 have decreased. As one would expect, water sales reductions have impacted revenues and will continue to affect the District finances. The sales decreases have moderated as the District is seeing slight increases in water sales. 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.

ACCOUNTING SYSTEM

The Finance Department is responsible for providing financial services to the District including financial accounting; reporting; payroll and 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 for the fiscal year ended June 30, 2012. This was the ninth 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, 2012. 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.

In addition, the District received two special recognitions for the FY 2012-2013 budget:

1) Outstanding as a Policy Document, and 2) Outstanding as a Communication Device. These special recognitions are rarely given to agencies. In fiscal year 2012, only 10 agencies received the special recognition for a Communications Device and 10 agencies received the special recognition for a Policy Document out of 1,376 applicants.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Operating Budgeting for Fiscal Year 2012-2013*.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Capital Budgeting for Fiscal Year 2012-2013*.

Otay Water District has been awarded the *2013 Tyler Public Sector Excellence Award*. This award recognized the achievement of a high level of excellence in leadership, innovation, and excellence in the use of Tyler's ERP system for business solutions.

Otay Water District has received the *District of Distinction* accreditation and the *Transparency Certificate of Excellence* 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. By completing the 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. This is the first time Otay has received this biannual accreditation.

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

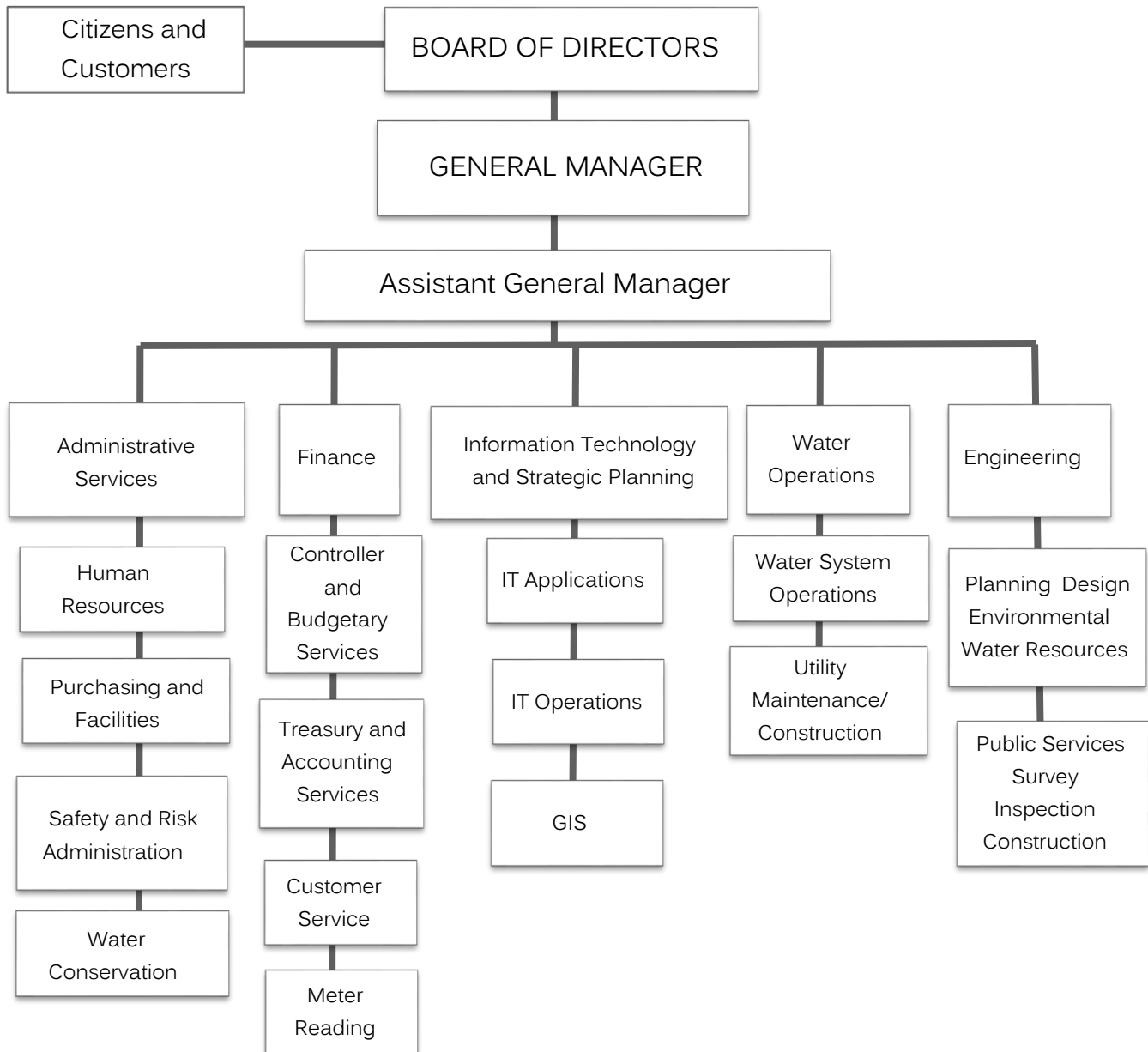
To the Board of Directors, staff and I acknowledge and appreciate their continued support and direction in achieving excellence in financial management.



Mark Watton, General Manager



Organization Chart



List of Principal Officials



Jose Lopez
President
Division 4



Mitchell Thompson
Vice President
Division 2



David Gonzalez, Jr.
Treasurer
Division 1



Gary Croucher
Division 3



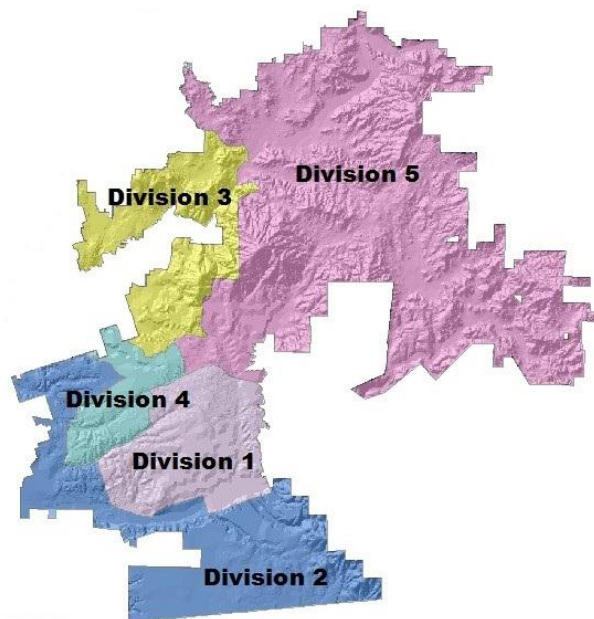
Mark Robak
Division 5

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. We do, however, answer to the public we serve 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.

Mission Statement

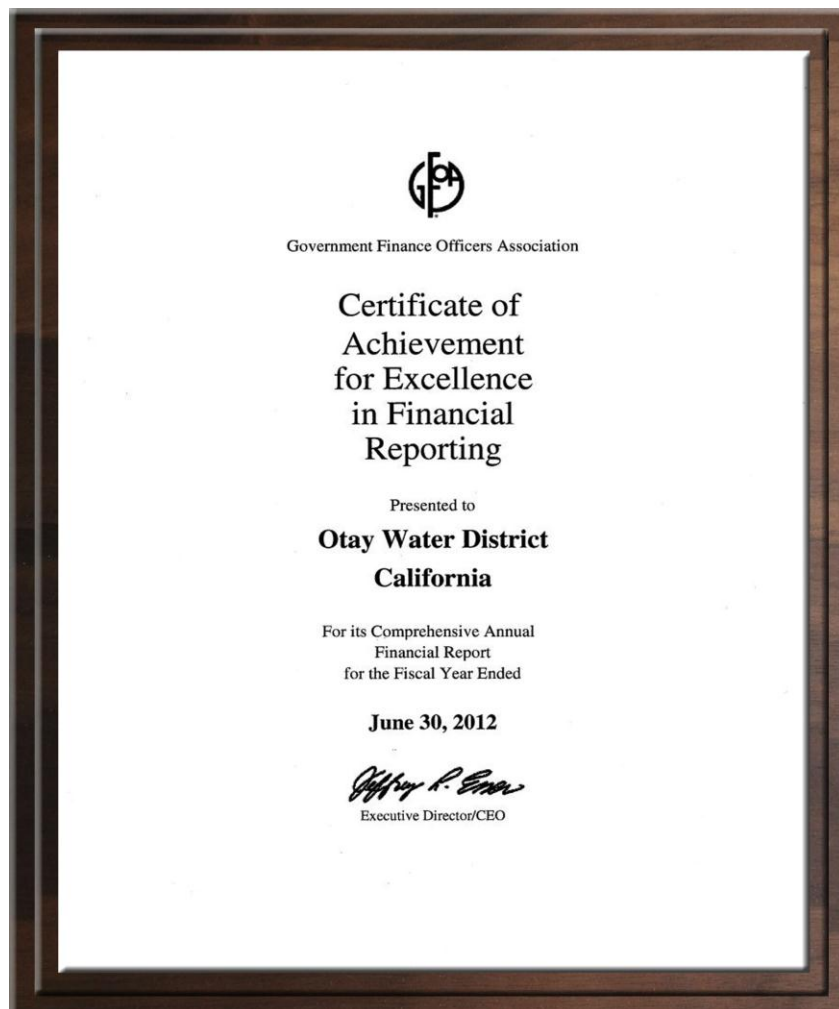
To provide safe, reliable water, recycled water and wastewater services to our community in an innovative, cost efficient, water-wise and environmentally responsible manner.



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, 2012. This is the ninth 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 the Financial Statements

We have audited the accompanying financial statements of the Otay Water District as of and for the years ended June 30, 2013 and 2012, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Otay Water District as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years 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.

Emphasis of Matters

As discussed in Note 1 to the basic financial statements, the District incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal years 2012 and 2013 due to the adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard required retrospective application resulting in a \$2,252,393 and \$2,406,704 reduction of previously reported net position as of July 1, 2012 and 2011, respectively. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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 Matters

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2013, 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.

White Nelson Dick Evans LLP

October 22, 2013
Carlsbad, California

Management's Discussion and Analysis

As management of the Otay Water District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ending June 30, 2013. 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 \$448.2 million (*net position*). Of this amount, \$67.1 million (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- Total assets decreased by \$8.4 million or 1.42% during Fiscal Year 2013, to \$582.3 million, due primarily to depreciation and the write-off of CIP projects that were no longer viable as a part of the District's long range plans for growth and improvements to infrastructure. Other significant factors were the annual payment of long-term debt, implementation of GASB 65 and a reduction in grant funds received.

Overview of the Financial Statements

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

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

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data supplied in each of the specific financial statements listed above.

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 outflow of resources exceeded liabilities and deferred inflows of resources by \$448.2 million at the close of the most recent fiscal year.

By far the largest portion of the District's net position, \$376.5 million (84%), reflects its investment in capital assets, less any remaining outstanding debt used to acquire those assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported effectively as a resource, 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>2013</u>	<u>2012</u>	<u>2011</u>
Assets			
Current and Other Assets	\$ 106.3	\$ 109.9	\$ 122.5
Capital Assets	<u>476.0</u>	<u>480.8</u>	<u>474.4</u>
Total Assets	<u>582.3</u>	<u>590.7</u>	<u>596.9</u>
 Deferred Outflows of Resources			
Deferred Amount on Refunding	<u>0.4</u>	<u>0.0</u>	<u>0.0</u>
Total Deferred Outflows of Resources	<u>0.4</u>	<u>0.0</u>	<u>0.0</u>
 Liabilities			
Long-Term Debt Outstanding	109.0	112.0	115.3
Other Liabilities	<u>25.5</u>	<u>24.6</u>	<u>24.4</u>
Total Liabilities	<u>134.5</u>	<u>136.6</u>	<u>139.7</u>
 Net Position			
Net Investment in Capital Assets	376.5	381.7	377.7
Restricted for Debt Service	4.6	4.7	4.9
Unrestricted	<u>67.1</u>	<u>67.7</u>	<u>74.6</u>
Total Net Position	<u>\$ 448.2</u>	<u>\$ 454.1</u>	<u>\$ 457.2</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-2013 the District continued its use of the \$51.2 million of 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 decrease in Current and Other Assets of \$3.6 million, which was partially offset by a corresponding increase in Capital Assets of \$11.6 million before accumulated depreciation. The District also saw a decrease in Long-Term Debt of \$3.0 million due to the annual payments of long-term debt and the advance refunding of its 2004 Certificates of Participation.

In response to the prolonged business slowdown, during FY-2011 the District performed a review of Fixed Assets throughout the system and wrote off \$2.9 million of fully depreciated Property, Plant & Equipment that was no longer serviceable or functioning efficiently. Additionally, an analysis of several Construction-in-Progress projects such as the Otay Mesa Desalination and Disinfection System, Rancho Del Rey Groundwater Well Development and San Miguel Habitat Management/Mitigation Area and determined that some charges do not qualify as capitalizable cost. This resulted in FY-2012 expenses of \$1.3 million and FY-2013 expenses of \$1.6 million.

For the entire financial reporting period, Fiscal Years 2013 and 2012, Total Net Position decreased approximately \$5.9 million for FY-2013, to \$448.2 million, as compared to FY-2012 when Net Position decreased by \$3.1 million. At the end of FY-2013 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.

Management's Discussion and Analysis

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Water Sales	\$ 72.2	\$ 63.8	\$ 58.3
Wastewater Revenue	2.6	2.4	2.4
Connection and Other Fees	2.1	2.2	2.5
Non-operating Revenues	<u>8.6</u>	<u>9.1</u>	<u>8.8</u>
Total Revenues	<u>85.5</u>	<u>77.5</u>	<u>72.0</u>
Depreciation Expense	16.5	15.2	13.9
Other Operating Expense	71.7	66.5	63.4
Non-operating Expense	<u>6.0</u>	<u>5.7</u>	<u>4.1</u>
Total Expenses	<u>94.2</u>	<u>87.4</u>	<u>81.4</u>
Loss Before Capital Contributions	(8.7)	(9.9)	(9.4)
Capital Contributions	<u>2.8</u>	<u>6.8</u>	<u>7.9</u>
Change in Net Position	(5.9)	(3.1)	(1.5)
Prior Period Adjustment			(2.6)
Beginning Net Position	<u>454.1</u>	<u>457.2</u>	<u>461.3</u>
Ending Net Position	<u>\$ 448.2</u>	<u>\$ 454.1</u>	<u>\$ 457.2</u>

Water Sales increased by \$5.5 million in FY-2012 and \$8.4 million in FY-2013, mainly due to rate increases in both years and an increase in units sold in FY13 due to drier weather and warmer temperatures. The slowdown in District growth, as a result of the economic crisis, appears to have leveled off as the annual decreases in Connection and Other Fees eased from \$0.3 million in FY-2012 to \$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 7.5%, and 9.1% from San Diego County Water Authority, brought on by the high cost of supply programs as well as higher energy and operating costs.

The slowdown in the economy appears to have leveled off. However, due to the nationwide housing mortgage crisis throughout the last several years, developers have either slowed-down or totally stopped work on many projects until economic conditions improve and the demand for growth returns. This has resulted in Capital Contributions remaining low over the last 3 years, compared to the extended growth of the previous 10 years. While this slowdown now appears to have stabilized, the District was aided in its Capital Contributions through the receipt of additional federal grant monies of \$935,000 in FY-2012 and \$184,000 in FY-2013.

Management's Discussion and Analysis

Non-operating Revenues

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Taxes and Assessments	\$ 3.5	\$ 3.5	\$ 3.9
Rents and Leases	1.3	1.2	1.2
Other Non-operating Revenue	<u>3.8</u>	<u>4.4</u>	<u>3.7</u>
Total Non-operating Revenues	<u>\$ 8.6</u>	<u>\$ 9.1</u>	<u>\$ 8.8</u>

The District's non-operating revenues increased by \$0.3 million in FY-2012 and decreased by \$0.5 million in FY-2013. The decrease in FY-2013 was primarily a result of decreased miscellaneous and investment income.

Prior Period Adjustment

In March 2012 the Governmental Accounting Standards Board (GASB) issued statement No. 65, *"Items Previously Reported as Assets and Liabilities"*, effective for periods beginning after December 15, 2012. The District implemented this standard in fiscal year 2013. The result of the implementation of this standard was to decrease the net position at July 1, 2012 and July 1, 2011 by \$2.2 million and \$2.4 million, respectively, which is the amount of unamortized debt issuance costs at July 1, 2012 and July 1, 2011.

Management's Discussion and Analysis

Capital Assets and Debt Administration

The District's capital assets (net of accumulated depreciation) as of June 30, 2013, totaled \$476 million. Included in this amount is land. The District's capital assets decreased by 1.0% for FY-2013 and increased by 1.4% in FY-2012.

	Capital Assets (In Millions of Dollars)		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 13.7	\$ 13.7	\$ 13.6
Construction in Progress	17.1	17.5	17.9
Water System	458.8	452.1	441.9
Recycled Water System	108.9	108.0	98.3
Sewer System	41.2	37.8	37.7
Field Equipment	8.9	8.6	9.8
Buildings	18.8	18.6	18.5
Transportation Equipment	3.5	3.2	3.2
Communication Equipment	2.6	2.5	2.4
Office Equipment	<u>17.3</u>	<u>17.2</u>	<u>17.3</u>
	690.8	679.2	660.6
Less Accumulated Depreciation	<u>(214.8)</u>	<u>(198.4)</u>	<u>(186.2)</u>
Net Capital Assets	<u>\$ 476.0</u>	<u>\$ 480.8</u>	<u>\$ 474.4</u>

As indicated by figures in the table above, the majority of capital assets added during both fiscal years were related to the potable and recycled water systems. In addition, the majority of the cost of construction-in-progress is also related to these water systems. Additional information on the District's capital assets can be found in Note 3 of the Notes to Financial Statements.

At June 30, 2013, the District had \$109 million in outstanding debt (net of \$3.5 million of maturities occurring in FY-2014), which consisted of the following:

General Obligation Bonds	\$ 5.8
Certificates of Participation	46.5
Revenue Bonds	<u>56.7</u>
Total Long-Term Debt	<u>\$ 109.0</u>

Management's Discussion and Analysis

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 \$.4 million of remaining interest payments. In accordance with GASB Nos. 23 and 65, the remaining interest payments of \$.4 million 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.

Fiscal Year 2013-2014 Budget

Economic Factors

Growth in the San Diego area has declined over the last 4 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 2013, the District is expecting that San Diego's rainfall will return to its average pattern and volume in the coming years. Water sales volumes are expected to increase slightly as the economy is slowly improving, but will be partially offset by customers' efforts to conserve water in a period of rising water costs. The coming years will continue to pose challenges for those in California's water community. It is uncertain if the challenges facing the Sacramento-San Joaquin Bay Delta, the source of 30% of Southern California's water supply, will be addressed. In addition, weather and rainfall always bring a level of uncertainty to the delivery of water to customers in the arid southwestern states. The combination of these factors add to the cost of providing a stable supply of water as water providers look to new and more costly sources of water.

The District currently provides water service to about 74% of its projected ultimate population, serving approximately 211,000 people. Long-term, this percentage should continue to increase as the District's service area continues to develop and grow. Ultimately, the District is projected to serve approximately 285,000 people, with an average daily demand of 46 million gallons per day (MGD). Currently, the District services the needs of this growing population by purchasing water from CWA, who in turn purchases its water from MWD and the Imperial Irrigation District (IID). Otay takes delivery of the water through several connections of large diameter pipelines owned and operated by CWA. The District currently receives treated water from CWA and the Helix Water District (HWD), by contract with CWA. In addition, the District has an emergency agreement with the City of San Diego to purchase water in the case of a shutdown of the main treated water source. The City of San Diego also has a long-term contract with the District to provide recycled water for landscape and irrigation usage. Through innovative agreements like this, benefits can be achieved by both parties by using excess capacity of another agency, and diversifying local supply, thereby increasing reliability.

Management's Discussion and Analysis

Financial

The District is projected to deliver approximately 28,985 acre-feet of potable water to 49,150 potable customer accounts during Fiscal Year 2013-2014. Management feels that these projections are realistic after accounting for low growth, supply changes, and a focus on conservation. Current economic conditions throughout America have created price elasticity uncertainty for business and economic projections in the current fiscal year. The nationwide housing mortgage crisis has leveled off, but continues to result in foreclosures within the District. Additionally, the crisis in the banking and financial industry has had a ripple effect resulting in continued levels of high unemployment. One of the subsequent results of these two broad events is the relocation of many homeowners and renters into new housing arrangements throughout San Diego County. Even with the various challenges, people's need for water remains an underlying constant. Staff continues working diligently on developing new water supplies as they work through the financial impacts of conservation and the modest economic turnaround.

Management is unaware of any other conditions that could have a significant impact on the District's current financial position, net 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, taxpayers, creditors, and other interested parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the District's Finance Department, 2554 Sweetwater Springs Blvd., Spring Valley, CA 91978-2004.

Statements of Net Position

June 30, 2013 and 2012

	2013	2012 (As Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents (Notes 1 and 2)	\$ 33,958,281	\$ 31,075,455
Restricted cash and cash equivalents (Notes 1 and 2)	4,087,042	4,057,726
Investments (Note 2)	31,134,182	37,069,853
Restricted investments (Notes 1 and 2)	13,545,284	16,124,042
Accounts receivable, net	11,856,029	10,575,970
Accrued interest receivable	53,950	106,375
Taxes and availability charges receivable, net	431,159	481,955
Restricted taxes and availability charges receivable, net	41,657	57,313
Inventories	800,085	789,769
Prepaid expenses and other current assets	1,072,706	1,226,703
	<hr/>	<hr/>
Total Current Assets	96,980,375	101,565,161
	<hr/>	<hr/>
Non-current Assets:		
Net OPEB asset (Note 7)	9,345,437	8,321,902
	<hr/>	<hr/>
Capital Assets (Note 3):		
Land	13,714,963	13,703,463
Construction in progress	17,110,048	17,452,274
Capital assets, net of depreciation	445,203,648	449,674,352
	<hr/>	<hr/>
Total capital assets, net of depreciaton	476,028,659	480,830,089
	<hr/>	<hr/>
Total Non-current Assets	485,374,096	489,151,991
	<hr/>	<hr/>
Total Assets	582,354,471	590,717,152
	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	390,591	-
	<hr/>	<hr/>
Total Deferred Outflows of Resources	390,591	-
	<hr/>	<hr/>

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

Statements of Net Position

June 30, 2013 and 2012 - Continued

	2013	2012 (As Restated)
LIABILITIES		
Current Liabilities:		
Current maturities of long-term debt (Note 4)	3,470,000	3,320,000
Accounts payable	11,733,543	10,478,366
Accrued payroll liabilities	2,755,421	2,591,272
Other accrued liabilities	3,487,430	3,932,442
Customer deposits	1,756,983	1,863,992
Accrued interest	1,518,651	1,639,681
Liabilities payable from restricted assets:		
Restricted accrued interest	76,154	81,354
	<hr/>	<hr/>
Total Current Liabilities	24,798,182	23,907,107
	<hr/>	<hr/>
Non-current Liabilities:		
Long-term debt (Note 4):		
General obligation bonds	5,849,918	6,401,271
Certificates of participation	46,465,525	56,023,740
Revenue bonds	56,678,987	49,521,421
Other non-current liabilities	718,543	721,626
	<hr/>	<hr/>
Total Non-current Liabilities	109,712,973	112,668,058
	<hr/>	<hr/>
Total Liabilities	134,511,155	136,575,165
	<hr/>	<hr/>
NET POSITION		
Net investment in capital assets	376,549,168	381,725,015
Restricted for debt service	4,612,890	4,715,904
Unrestricted	67,071,849	67,701,068
	<hr/>	<hr/>
Total Net Position	\$ 448,233,907	\$ 454,141,987
	<hr/>	<hr/>

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, 2013 and 2012

	2013	2012 (As Restated)
OPERATING REVENUES		
Water sales	\$ 72,187,081	\$ 63,830,272
Wastewater revenue	2,625,087	2,400,313
Connection and other fees	2,069,220	2,169,764
Total Operating Revenues	76,881,388	68,400,349
OPERATING EXPENSES		
Cost of water sales	50,600,551	46,106,403
Wastewater	1,638,354	2,547,929
Administrative and general	19,428,008	17,926,430
Depreciation	16,545,622	15,214,704
Total Operating Expenses	88,212,535	81,795,466
Operating Income (Loss)	(11,331,147)	(13,395,117)
NON-OPERATING REVENUES (EXPENSES)		
Investment income	22,155	436,596
Taxes and assessments	3,545,595	3,502,155
Availability charges	707,881	696,863
Gain (loss) on sale of capital assets	(546,799)	(278,540)
Miscellaneous revenues	4,934,714	4,788,711
Donations	(120,684)	(121,617)
Interest expense	(3,977,538)	(3,899,927)
Miscellaneous expenses	(1,917,389)	(1,612,914)
Total Non-operating Revenues (Expenses)	2,647,935	3,511,327
Income (Loss) Before Capital Contributions	(8,683,212)	(9,883,790)
Capital Contributions	2,775,132	6,825,897
Changes in Net Position	(5,908,080)	(3,057,893)
Total Net Position, Beginning, As Originally Stated	454,141,987	459,606,584
Prior Period Adjustment (Note 12)	-	(2,406,704)
Total Net Position, Beginning, As Restated (Note 12)	454,141,987	457,199,880
Total Net Position, Ending	\$ 448,233,907	\$ 454,141,987

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

Statements of Cash Flows

For the Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 73,425,100	\$ 64,648,558
Receipts from connections and other fees	2,069,220	2,169,764
Other receipts	3,657,800	3,566,651
Payments to suppliers	(51,083,778)	(46,620,831)
Payments to employees	(20,491,758)	(20,521,468)
Other payments	(2,038,073)	(1,724,744)
Net Cash Provided (Used) by Operating Activities	5,538,511	1,517,930
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from taxes and assessments	3,612,045	3,493,423
Receipts from property rents and leases	1,276,914	1,222,060
Net Cash Provided (Used) by Non-capital and Related Financing Activities	4,888,959	4,715,483
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital contributions	1,515,238	3,363,090
Proceeds from sale of capital assets	-	28,128
Proceeds from debt related taxes and assessments	707,881	696,863
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	(3,320,000)	(3,146,010)
Interest payments and fees	(5,201,467)	(5,199,488)
Acquisition and construction of capital assets	(10,035,376)	(17,276,246)
Net Cash Provided (Used) by Capital and Related Financing Activities	(16,104,339)	(21,533,663)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	395,773	580,872
Proceeds from sale and maturities of investments	68,832,000	108,410,000
Purchase of investments	(60,638,762)	(112,360,000)
Net Cash Provided (Used) by Investing Activities	8,589,011	(3,369,128)
Net Increase (Decrease) in Cash and cash equivalents	2,912,142	(18,669,378)
Cash and cash equivalents, Beginning	35,133,181	53,802,559
Cash and cash equivalents, Ending	\$ 38,045,323	\$ 35,133,181

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

Statements of Cash Flows

For the Years Ended June 30, 2013 and 2012 - Continued

	2013	2012
Reconciliation of operating income (loss) to net cash flows provided (used) by operating activities:		
Operating income (loss)	\$ (11,331,147)	\$ (13,395,117)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	16,545,622	15,214,704
Miscellaneous revenues	3,657,800	3,566,651
Miscellaneous expenses	(2,038,073)	(1,724,744)
(Increase) decrease in accounts receivable	(1,280,059)	(1,340,832)
(Increase) decrease in inventory	(10,316)	45,552
(Increase) decrease in net OPEB asset	(1,023,535)	(905,556)
(Increase) decrease in prepaid expenses and other current assets	153,997	(37,497)
Increase (decrease) in accounts payable	1,255,177	(2,522,194)
Increase (decrease) in accrued payroll and related expenses	164,149	(341,005)
Increase (decrease) in other accrued liabilities	(445,012)	3,192,574
Increase (decrease) in customer deposits	(107,009)	(241,195)
Increase (decrease) in prepaid capacity fees	(3,083)	6,589
Net Cash Provided (Used) By Operating Activities	<u>\$ 5,538,511</u>	<u>\$ 1,517,930</u>
Schedule of Cash and Cash Equivalents:		
Current assets:		
Cash and cash equivalents	\$ 33,958,281	\$ 31,075,455
Restricted cash and cash equivalents	4,087,042	4,057,726
Total Cash and Cash Equivalents	<u>\$ 38,045,323</u>	<u>\$ 35,133,181</u>
Supplemental Disclosures:		
Non-cash Investing and Financing Activities Consisted of the Following:		
Contributed Capital for Water and Sewer System	\$ 1,259,894	\$ 3,462,807
Change in Fair Value of Investments and Recognized Gains/Losses	(353,950)	(127,662)
Amortization Related to Long-Term Debt	154,246	164,101

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

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

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See Independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

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 Authority).

The Otay Water 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 non-current) associated with these activities are included on the Statement of Net Position. The Statement 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.

See Independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

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 asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets.

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, contributors, 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 assets that do not meet the definition of “invested in capital assets” or “restricted net position.”

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

See Independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

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

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

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 \$52,535 and \$57,465 at June 30, 2013 and 2012, respectively.

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

C) New Accounting Pronouncements

Implemented

In fiscal year 2012-2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, "*Elements of Financial Statements*" into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

In fiscal year 2012-2013, the District early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the early implementation of this statement, the calculation of deferred amount on refunding was revised to eliminate the inclusion of costs that should be recognized as an expense in the period incurred and eliminated debt issuance

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

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

C) New Accounting Pronouncements - Continued

costs which should be recognized as an expense in the period incurred. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2012 and July 1, 2011 by \$2,252,393 and \$2,406,704, respectively, which is the amount of unamortized debt issuance costs at July 1, 2012 and July 1, 2011, respectively.

Pending Accounting Standards

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

- GASB 66 – “*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*”, effective for periods beginning after December 15, 2012.
- GASB 67 – “*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*”, effective for the fiscal years beginning after June 15, 2013.
- 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 statement 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.

See Independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

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

D) Deferred Outflows / Inflows of Resources - Continued

In addition to liabilities, the statement 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, 2013 or June 30, 2012.

E) Statement of Cash Flows

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

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 cost.

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

See Independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

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

H) Capital Assets – Continued

are charged to expense. Donated assets are capitalized at their approximate fair market value on the date contributed.

The District capitalizes interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest for fiscal year ending June 30, 2013 of \$995,721 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

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, 2013 and 2012, total accrued paid time off was \$2,120,399 and \$1,991,841, 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 collectability of existing specific accounts. The allowance for doubtful accounts was \$150,000 and \$14,461 for 2013 and 2012, respectively.

See Independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

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

L) 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.

M) 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.

N) Reclassifications

Certain reclassification 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.

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

2) CASH AND INVESTMENTS - Continued

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

Statement of Net Position:

Current Assets	2013	2012
Cash and Cash Equivalents	\$ 33,958,281	\$ 31,075,455
Restricted Cash and Cash Equivalents	4,087,042	4,057,726
Investments	31,134,182	37,069,853
Restricted Investments	13,545,284	16,124,042
Total Cash and Investments	<u>\$ 82,724,789</u>	<u>\$ 88,327,076</u>

Cash and Investments consist of the following:

	2013	2012
Cash on Hand	\$ 2,950	\$ 2,950
Deposits with Financial Institutions	1,107,051	1,519,979
Investments	81,614,788	86,804,147
Total Cash and Investments	<u>\$ 82,724,789</u>	<u>\$ 88,327,076</u>

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

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

See Independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

2) CASH AND INVESTMENTS - Continued

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

<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 rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

See Independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Interest Rate Risk - Continued

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, 2013 and 2012.

June 30, 2013

Investment Type		Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Government Sponsored Entities	\$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	19,983,000	19,983,000	-	-	-
Total	\$81,614,788	\$40,017,907	\$17,974,890	\$23,621,991	\$ -

June 30, 2012

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

See Independent auditors' report.

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's Investment Policy, or debt agreements, and the Moody's ratings as of June 30, 2013 and 2012 for each investment type.

June 30, 2013

Investment Type		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	19,983,000	N/A	-	-	19,983,000
Total	<u>\$81,614,788</u>		<u>\$44,599,731</u>	<u>\$ -</u>	<u>\$37,015,057</u>

June 30, 2012

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

See Independent auditors' report.

Notes to Financial Statements

2) CASH AND INVESTMENTS - Continued

Concentration of Credit Risk

The Investment Policy of the District contains various limitations on the amounts that can be invested in any one type or group of investments and in any issuer, beyond that stipulated by the California Government Code, Sections 53600 through 53692. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments as of June 30, 2013 and 2012 are as follows:

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

June 30, 2012

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

See Independent auditors' report.

Notes to Financial Statements

2) CASH AND INVESTMENTS – Continued

Custodial Credit Risk

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

As of June 30, 2013, \$1,063,279 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts. As of June 30, 2012, \$1,720,135 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Local Agency Investment Fund (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost-basis.

San Diego County Pooled Fund

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

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

See Independent auditors' report.

Notes to Financial Statements

2) CASH AND INVESTMENTS – Continued

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.

See Independent auditors' report.

Notes to Financial Statements

3) CAPITAL ASSETS

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	17,452,274	11,751,086	(12,093,312)	17,110,048
Total Capital Assets Not Depreciated	31,155,737	11,762,586	(12,093,312)	30,825,011
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	17,201,420	209,037	(112,115)	17,298,342
Total Capital Assets Being Depreciated	648,083,018	12,721,717	(1,028,107)	659,776,628
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	11,086,817	2,105,183	(92,458)	13,099,542
Total Accumulated Depreciation	198,408,666	16,545,622	(381,308)	214,572,980
Total Capital Assets Being Depreciated, Net	449,674,352	(3,823,905)	(646,799)	445,203,648
Total Capital Assets, Net	\$ 480,830,089	\$ 7,938,681	\$ (12,740,111)	\$476,028,659

Depreciation expense for the years ended June 30, 2013 and 2012 was \$16,545,622 and \$15,214,704, respectively.

See Independent auditors' report.

Notes to Financial Statements

3) CAPITAL ASSETS (Continued)

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

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

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

See Independent auditors' report.

Notes to Financial Statements

4) LONG-TERM DEBT

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	166,271	-	16,353	149,918	-
Net General Obligation Bonds	6,921,271	-	536,353	6,384,918	535,000
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	13,005	-	13,005	-	-
Net Certificates of Participation	58,023,740	-	10,103,215	47,920,525	1,455,000
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	-	984,976	8,008	976,968	-
Net Revenue Bonds	50,321,421	8,719,976	882,410	58,158,987	1,480,000
Total Long-Term Liabilities	\$ 115,266,432	\$8,719,976	\$11,521,978	\$112,464,430	\$ 3,470,000

See Independent auditors' report.

Notes to Financial Statements

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

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 June 30,	Principal	Interest	Total
2014	\$ 535,000	\$ 220,437	\$ 755,437
2015	550,000	204,162	754,162
2016	570,000	187,362	757,362
2017	585,000	169,306	754,306
2018	605,000	147,700	752,700
2019-2023	3,390,000	348,003	3,738,003
	<u>\$ 6,235,000</u>	<u>\$ 1,276,970</u>	<u>\$ 7,511,970</u>

See Independent auditors' report.

Notes to Financial Statements

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, 2014. The interest rate at June 30, 2013 was 0.05%. 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 June 2013, the July 2004 COPS were refunded with the issuance of the 2013 Water Revenue Refunding Bonds (see Revenue Bonds on [page 40](#)). 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. The savings between the cash flow required to service the old debt and the cash flow required to service the new debt is \$763,318 and represents an economic gain on refunding of \$707,071.

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%.

Notes to Financial Statements

4) LONG-TERM DEBT - Continued

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,	1996 COPS		2007 COPS	
	Principal	Interest*	Principal	Interest
2014	\$ 500,000	\$ 4,992	\$ 955,000	\$ 1,553,864
2015	500,000	4,742	995,000	1,517,301
2016	600,000	4,450	1,035,000	1,479,239
2017	600,000	4,150	1,075,000	1,439,408
2018	600,000	3,850	1,115,000	1,397,798
2019-2023	3,700,000	13,908	6,260,000	6,287,081
2024-2028	3,900,000	3,425	7,670,000	4,867,417
2029-2033	-	-	9,460,000	3,058,810
2034-2038	-	-	9,180,000	824,687
	<u>\$ 10,400,000</u>	<u>\$ 39,517</u>	<u>\$ 37,745,000</u>	<u>\$ 22,425,605</u>

* Variable Rate - Interest reflected at June 30, 2013 at a rate of 0.05%.

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, 2013.

Water Revenue Bonds

In April 2010, Water Revenue Bonds with a face value of \$50,195,000 were sold by the Otay Water District Financing Authority to provide funds for the construction of water storage and transmission facilities. The bond issue consisted of two series; Water Revenue Bonds, Series 2010A (Non-AMT Tax Exempt) with a face value of \$13,840,000 plus a \$1,078,824 original issue premium, and Water Revenue Bonds Series 2010B (Taxable Build America Bonds) with a face value of \$36,255,000. The Series 2010A bonds are due in annual installments of \$785,000 to \$1,295,000 from September 1, 2012 through September 1, 2025; bearing interest at 2% to 5.25%. The Series 2010B bonds are due in annual installments of \$1,365,000 to \$3,505,000 from September 1, 2026 through September 1, 2040; bearing interest at 6.377% to 6.577%. Interest on both Series is payable on September 1, 2010 and semiannually thereafter on

See Independent auditors' report.

Notes to Financial Statements

4) LONG-TERM DEBT – Continued

Water Revenue Bonds - Continued

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, 2013 was \$74,402 and is included in interest expense. The unamortized premium at June 30, 2013 is \$837,019.

The 2010 Water Revenue Bonds contains various covenants and restrictions, principally that the District fix, prescribe, revise and collect rates, fees and charges for the Water System which will be at least sufficient to yield, during each fiscal year, taxes and net revenues equal to one hundred twenty-five percent (125%) of the debt service for such fiscal year. The District was in compliance with these rate covenants for the fiscal year ended June 30, 2013.

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, 2013 was \$8,008 and is included in interest expense. The unamortized premium at June 30, 2013 is \$976,968.

Notes to Financial Statements

4) LONG-TERM DEBT – Continued

Water Revenue Bonds - Continued

The total amount outstanding at June 30, 2013 and aggregate maturities of the revenue bonds for the fiscal years subsequent to June 30, 2013, 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
2014	\$ 820,000	\$ 533,538	\$ -	\$ 2,371,868	\$ 660,000	\$ 197,198
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
2019-2023	5,350,000	1,337,813	-	11,859,342	3,725,000	551,500
2024-2028	2,530,000	132,856	2,815,000	11,453,765	835,000	16,700
2029-2033	-	-	8,760,000	9,049,258	-	-
2034-2038	-	-	12,005,000	5,459,732	-	-
2039-2042	-	-	12,775,000	1,002,335	-	-
	<u>\$ 12,255,000</u>	<u>\$ 3,840,632</u>	<u>\$ 36,355,000</u>	<u>\$ 50,683,772</u>	<u>\$ 7,735,000</u>	<u>\$ 1,684,623</u>

5) NET POSITION

Designated Net Position

In addition to the restricted net assets, a portion of the unrestricted net assets have been designated by the Board of Directors for the following purposes as of June 30, 2013 and 2012:

	2013	2012
Designated Betterment	\$ 3,629,786	\$ -
Expansion Reserve	623,834	17,943,825
Replacement Reserve	24,182,442	15,911,850
Designated New Supply Fund	24,000	1,593,571
Employee Benefits Reserve	149,705	1,660,369
Total	<u>\$ 28,609,767</u>	<u>\$ 37,109,615</u>

See Independent auditors' report.

Notes to Financial Statements

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 employees contributed 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, 2013 was 24.318%. The contribution requirements of the Plan members are established by State statute and the employer contribution rate is established and may be amended by the CalPERS.

Notes to Financial Statements

6) DEFINED BENEFIT PENSION PLAN - Continued

Annual Pension Costs

For the fiscal year ended June 30, 2013, the District's annual pension cost and actual contribution was \$3,130,754. The required contribution for the fiscal year ended June 30, 2013 was determined as part of the June 30, 2010 actuarial valuation.

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

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	20-Years as of the Valuation Date
Asset Valuation Method	15-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (Net of Administrative Expenses)
Projected Salary Increase	3.55% to 14.45% Depending on Age, Service, and Type of Employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the Plan's date of entry into CalPERS. Subsequent Plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the Plan are amortized over a 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 be lower than the payment calculated over a 30-year amortization period.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/13	\$ 3,130,754	100%	\$ -
6/30/12	\$ 2,951,409	100%	\$ -
6/30/11	\$ 2,427,744	100%	\$ -

See Independent auditors' report.

Notes to Financial Statements

6) DEFINED BENEFIT PENSION PLAN - Continued

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the Plan was 70.6% funded. The actuarial accrued liability (AAL) for benefits was \$88,411,019, and the actuarial value of assets was \$62,435,349, resulting in an unfunded actuarial accrued liability (UAAL) of \$25,975,670. The covered payroll (annual payroll of active employees covered by the Plan) was \$12,289,529, and the ratio of the UAAL to the covered payroll was 211.4%.

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 and July 1, 1993 and employees hired on or after July 1, 1993. Board Members elected before January 1, 1995 are also eligible for the plan. Eligibility also 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.

See Independent auditors' report.

Notes to Financial Statements

7) OTHER POST EMPLOYMENT BENEFITS - Continued

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 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 Gold, and whether they are located outside the State of California. Contributions by plan members range from \$0 to \$149 per month for coverage to age 65, and from \$0 to \$148 per month, respectively, thereafter.

Annual OPEB Cost and Net OPEB Obligation/Asset

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 10.0% 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:

	2013	2012
Annual Required Contribution (ARC)	\$ 1,287,000	\$ 1,304,000
Interest on net OPEB asset	(603,338)	(537,685)
Adjustment to annual Required Contribution (ARC)	543,000	473,000
Annual OPEB Cost (expense)	1,226,662	1,239,315
Contributions made	2,250,198	2,144,871
Increase in net OPEB asset	(1,023,535)	(905,556)
Net OPEB asset – beginning of year	(8,321,902)	(7,416,346)
Net OPEB asset – end of year	\$ (9,345,437)	\$ (8,321,902)

See Independent auditors' report.

Notes to Financial Statements

7) OTHER POST EMPLOYMENT BENEFITS - Continued

Annual OPEB Cost and Net OPEB Obligation/Asset - Continued

For 2013, 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 \$877,196, which is included in the \$2,250,198 of contributions shown on the previous page. For 2012 this amount was \$749,871, which is included in the \$2,144,871 of contributions shown on the previous page.

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 2013, 2012 and 2011 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Asset
6/30/2013	\$ 1,226,662	183%	\$ (9,345,437)
6/30/2012	\$ 1,239,315	173%	\$ (8,321,902)
6/30/2011	\$ 409,288	255%	\$ (7,416,346)

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)	\$ 12,833,000
UAAL as a Percentage of Covered Payroll	86.18%

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

See Independent auditors' report.

Notes to Financial Statements

7) OTHER POST EMPLOYMENT BENEFITS - Continued

Funded Status and Funding Progress - Continued

information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Methods and Assumptions

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

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

Valuation Date	June 30, 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 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, 2013 and 2012, the District contributed \$120,684 and \$121,617,

See Independent auditors' report.

Notes to Financial Statements

8) WATER CONSERVATION AUTHORITY - Continued

respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

A summary of the Authority's June 30, 2012 audited financial statement is as follows (latest report available):

Assets	\$ 1,655,591
Liabilities	-
Net Assets	<u>\$ 1,655,591</u>
Revenues, Gains and Other Support	\$ 187
Expenses	<u>(160,398)</u>
Changes in Net Assets	<u>\$ (160,211)</u>

9) COMMITMENTS AND CONTINGENCIES

Construction Commitments

The District had committed to capital projects under construction with an estimated cost to complete of \$6,879,357 at June 30, 2013.

Litigation

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

Refundable Terminal Storage Fees

The District has entered into an agreement with several developers whereby the developers prepaid the terminal storage fee in order to provide the District with the funds necessary to build additional storage capacity. The agreement further allows the developers to relinquish all or a portion of such water storage capacity. If the District grants to another property owner the relinquished storage capacity, the District shall refund to the applicable developer \$746 per equivalent dwelling unit (EDU). There were 17,867 EDUs that were subject to this agreement. At June 30, 2012, 1,751 EDUs had been relinquished and refunded, 15,026 EDUs had been connected, and 1,090 EDUs have neither been relinquished nor connected. 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.

See Independent auditors' report.

Notes to Financial Statements

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, 2013, 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 \$341,046 at the point of acceptance. Accordingly, the District has accrued a liability as of year end.

10) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. Beginning in July 2003, the District began participation in an insurance pool through the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. The District pays an annual premium for commercial insurance covering general liability, excess liability, property, automobile, public employee dishonesty, and various other claims. Accordingly, the District retains no risk of loss. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "I" Street, Suite 300, Sacramento, CA 95814.

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

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

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

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

See Independent auditors' report.

Notes to Financial Statements

10) RISK MANAGEMENT (Continued)

Employee Dishonesty Coverage: Total of \$400,000 per loss includes Public Employee Dishonesty, Forgery or Alteration and Theft, Disappearance and Destruction coverage's effective July 1, 2012.

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, 2012.

Boiler and Machinery: Replacement cost up to \$100 Million per occurrence, subject to a \$1,000 deductible, effective July 1, 2012.

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, 2012.

Comprehensive and Collision: On selected vehicles, with deductibles of \$250/\$500 or \$500/\$1,000, as elected; ACV limits; fully self-funded by SDRMA; Policy No. LCA - SDRMA - 201111, effective July 1, 2012.

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, 2012.

Health Insurance

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

Adequacy of Protection

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

Notes to Financial Statements

11) INTEREST EXPENSE

Interest expense for the years ended June 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Amount Expensed	\$ 3,977,538	\$ 3,899,927
Amount Capitalized as a Cost of Construction Projects	<u>995,721</u>	<u>1,185,443</u>
Total Interest	<u>\$ 4,973,259</u>	<u>\$ 5,085,370</u>

12) PRIOR PERIOD ADJUSTMENT and RESTATEMENT OF 2012 BALANCES

During fiscal year ended June 30, 2013, the District early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". Due to the early implementation of this statement, bond issuance costs and certain amounts classified as deferred amounts on refunding, which had previously been capitalized on the statement of net position and written off over the life of the corresponding debt issuance, have been restated as expenses in the periods incurred. The amount previously capitalized as of July 1, 2011, \$2,406,704, is reflected as a prior period adjustment. On the statement of net position, fiscal year 2012 balances have been restated for the removal of debt issuance costs and certain deferred amounts of refunding (previously shown as a component of long-term debt). On the statement of revenues, expenses and changes in net position, 2012 columns have been restated to remove \$154,312 previously shown as amortization expense (a component of miscellaneous expenses).

See Independent auditors' report.

Notes to Financial Statements

13) SEGMENT INFORMATION

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

Summary financial information for the water services is presented for June 30, 2013.

Condensed Statement of Net Position June 30, 2013

	Water Services
ASSETS	
Current Assets	\$ 98,171,085
Capital Assets	458,689,482
Other Assets	9,345,437
Total Assets	566,206,004
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refunding	390,591
Total Deferred Outflows of Resources	390,591
LIABILITIES	
Current Liabilities	24,364,563
Long-Term Liabilities	109,705,473
Total Liabilities	134,070,036
NET POSITION	
Net investment in capital assets	359,209,991
Restricted for debt service	4,612,890
Unrestricted	68,703,678
Total Net Position	\$ 432,526,559

See Independent auditors' report.

Notes to Financial Statements

13) SEGMENT INFORMATION - Continued

Condensed Statement of Revenues, Expenses and Changes in Net Position For The Year Ended June 30, 2013

	Water Services
Operating Revenues	
Water sales	\$ 72,157,781
Connection and other fees	1,915,679
Total Operating Revenues	<u>74,073,460</u>
Operating Expenses	
Cost of Water Sales	50,600,551
Administrative and General	19,428,008
Depreciation	15,613,824
Total Operating Expenses	<u>85,642,383</u>
Operating Income (Loss)	(11,568,923)
Non-operating Revenues (Expenses)	
Investment income	19,851
Taxes and assessments	3,542,969
Availability charges	655,115
Gain (loss) on sale of capital assets	(546,799)
Miscellaneous revenues	4,934,714
Donations	(120,684)
Interest expense	(3,977,538)
Miscellaneous expenses	(1,917,390)
Total Non-operating Revenues (Expenses)	<u>2,590,239</u>
Income (Loss) Before Capital Contributions	(8,978,684)
Capital Contributions	<u>1,251,399</u>
Changes in Net Position	(7,727,285)
Total Net Position, Begin As Restated (Note 12)	<u>440,253,844</u>
Total Net Position, Ending	<u><u>\$ 432,526,559</u></u>

See Independent auditors' report.

Notes to Financial Statements

13) SEGMENT INFORMATION - Continued

Condensed Statement of Cash Flows For The Year Ended June 30, 2013

	<u>Water Services</u>
Net Cash Provided by Operating Activities	\$ 4,963,208
Net Cash Provided by Non-capital and Related Financing Activities	2,954,725
Net Cash Provided (Used) by Capital and Related Financing Activities	(13,592,496)
Net Cash Used by Investing Activities	<u>8,586,705</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,912,142
Cash and Cash Equivalents, Beginning	<u>35,133,181</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 38,045,323</u></u>

See Independent auditors' report.

Required Supplementary Information

Years Ended June 30, 2013 and 2012

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]
6/30/11						
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%
6/30/09						
Miscellaneous	\$ 53,736,612	\$ 75,300,790	\$ 21,564,178	71.4%	\$ 11,880,481	181.5%

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%	\$ 12,833,000	86.18%
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%

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.

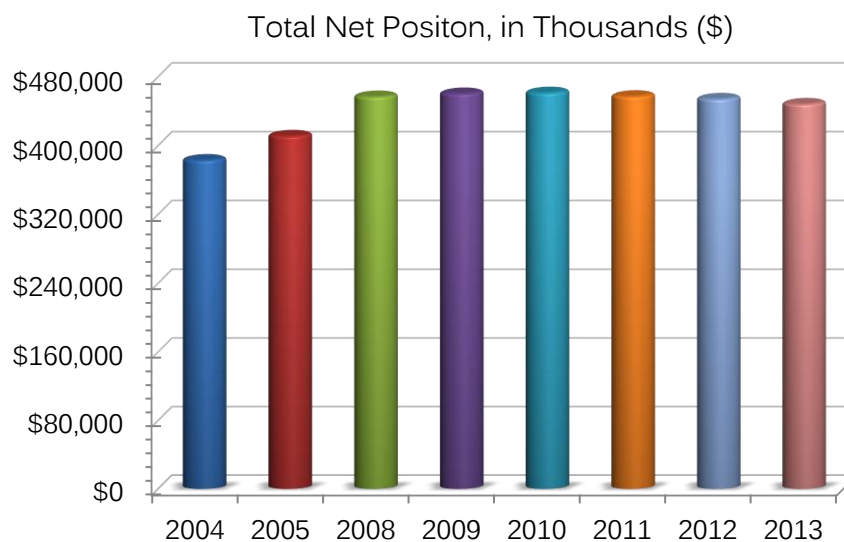
<u>Contents</u>	<u>Page</u>
Financial Trends	67
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	
Revenue Capacity	73
These schedules contain information to help the reader assess the factors affecting the District's ability to generate its potable and recycled water, and sewer sales as well as property and sales taxes.	
Debt	81
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.	
Demographic and Economic Information	85
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.	
Operating Information	87
These schedules contain information about the District's operation and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.	

Sources

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

Net Position by Component - Last Ten Fiscal Years

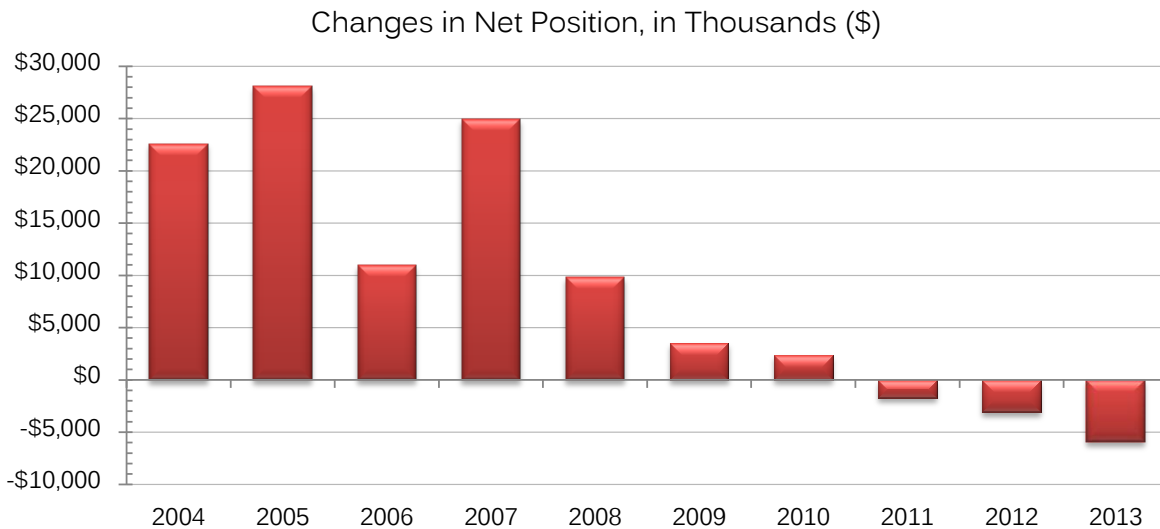
Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2013	\$ 376,549,168	\$ 4,612,890	\$ 67,071,849	\$ 448,233,907
2012	381,725,015	4,715,904	67,701,068	454,141,987
2011	377,656,762	4,915,555	74,627,563	457,199,880
2010	375,953,042	5,192,111	80,204,428	461,349,581
2009	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
2004	291,863,666	23,853,441	67,244,139	382,961,246



Source: Otay Water District

Changes in Net Position - Last Ten Fiscal Years

Fiscal Year	Operating Revenues	Operating Expenses	Total		Income (Loss) Before Capital Contributions	Capital Contributions	Change in Net Position
			Operating Income/ (Loss)	Non-Operating Revenues/ (Expenses)			
2013	\$ 76,881,388	\$ 88,212,535	\$ (11,331,147)	\$ 2,647,935	\$ (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
2004	41,539,293	51,516,096	(9,976,803)	3,484,492	(6,492,311)	29,099,278	22,606,967

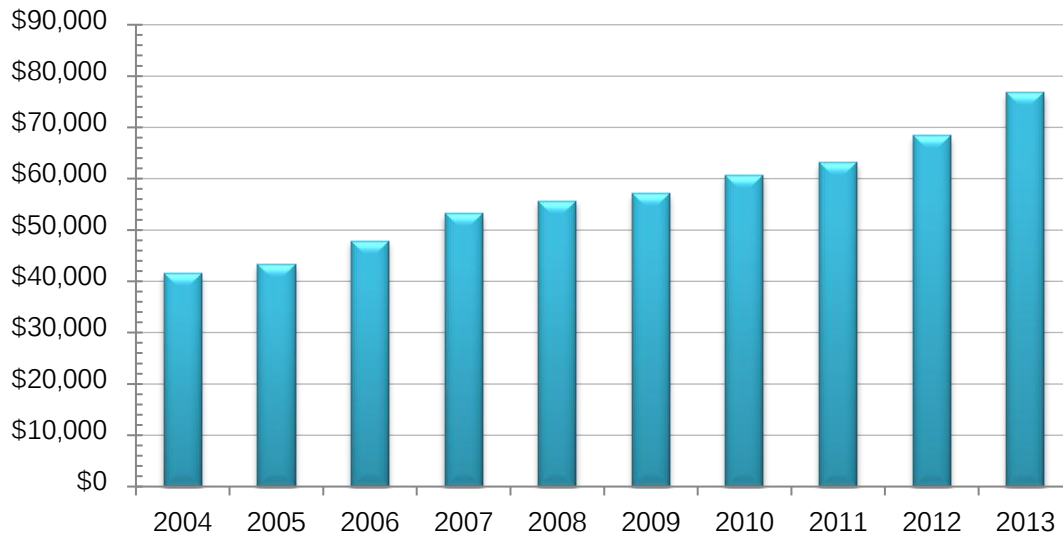


Source: Otay Water District

Operating Revenues by Source - Last Ten Fiscal Years

Fiscal Year	Water Sales	Wastewater	Connection and Other Fees	Total	Percent Change
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%
2004	39,044,712	1,774,366	720,215	41,539,293	12.4%

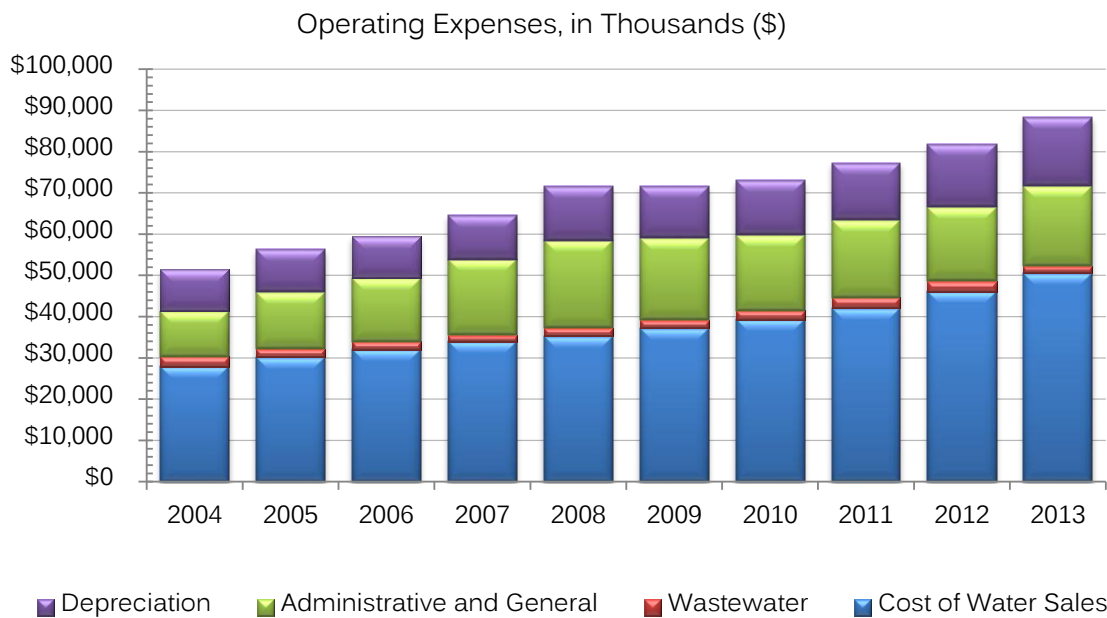
Operating Revenues, in Thousands (\$)



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
2013	\$ 50,600,551	\$ 1,638,354	\$ 19,428,008	\$ 16,545,622	\$ 88,212,535	7.8%
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%
2004	27,899,376	2,446,603	11,081,599	10,088,518	51,516,096	11.6%

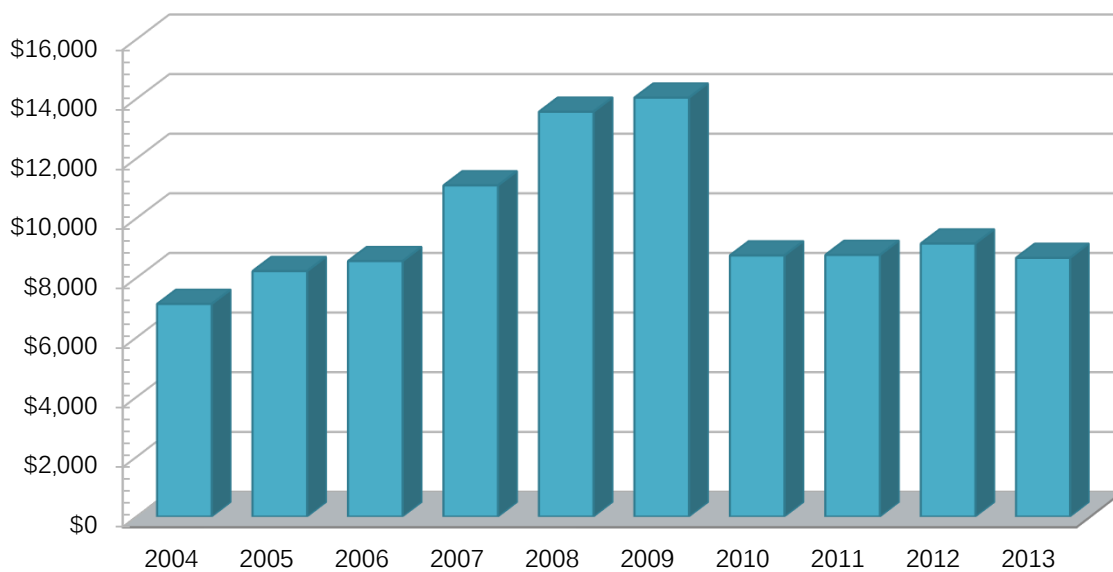


Source: Otay Water District

Non-Operating Revenues by Source - Last Ten Fiscal Years

Fiscal Year	Investment Income	Taxes and Assessments	Availability Charges	Miscellaneous	Total	Percent Change
2013	\$ 22,155	\$ 3,545,595	\$ 707,881	\$ 4,387,915	\$ 8,663,546	-1.1%
2012	436,596	3,502,155	696,863	4,510,171	9,145,785	4.6%
2011	854,440	3,895,938	653,012	3,360,263	8,763,653	0.2%
2010	1,323,844	3,973,328	670,784	2,777,930	8,745,886	-37.7%
2009	2,252,335	4,586,823	625,065	6,574,850 ⁽²⁾	14,039,073	3.5%
2008	4,538,791	4,591,023	744,722	3,692,206	13,566,742	22.3%
2007	4,416,342	4,151,956	715,664	1,811,619	11,095,581	29.7%
2006	3,188,645	2,779,635	609,099	1,978,632	8,556,011	4.1%
2005	2,052,292	2,326,526	556,590	3,285,128 ⁽¹⁾	8,220,536	15.5%
2004	1,097,449	3,071,685	1,132,278	1,816,967	7,118,379	-10.8%

Non-Operating Revenues, in Thousands (\$)



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

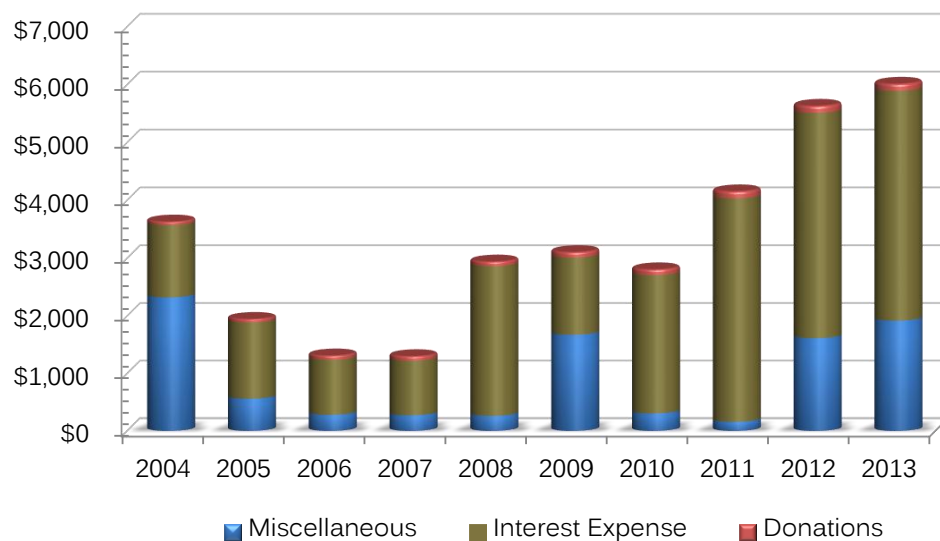
⁽²⁾ The District received a large, one-time legal settlement as a member of a class action lawsuit in Fiscal Year 2009.

Source: Otay Water District

Non-Operating Expenses by Function - Last Ten Fiscal Years

Fiscal Year	Donations ⁽¹⁾	Interest Expense	Miscellaneous	Total	Percent Change
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%
2004	59,220	1,252,307	2,322,360	3,633,887	4.9%

Non-Operating Expenses, in Thousands (\$)



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

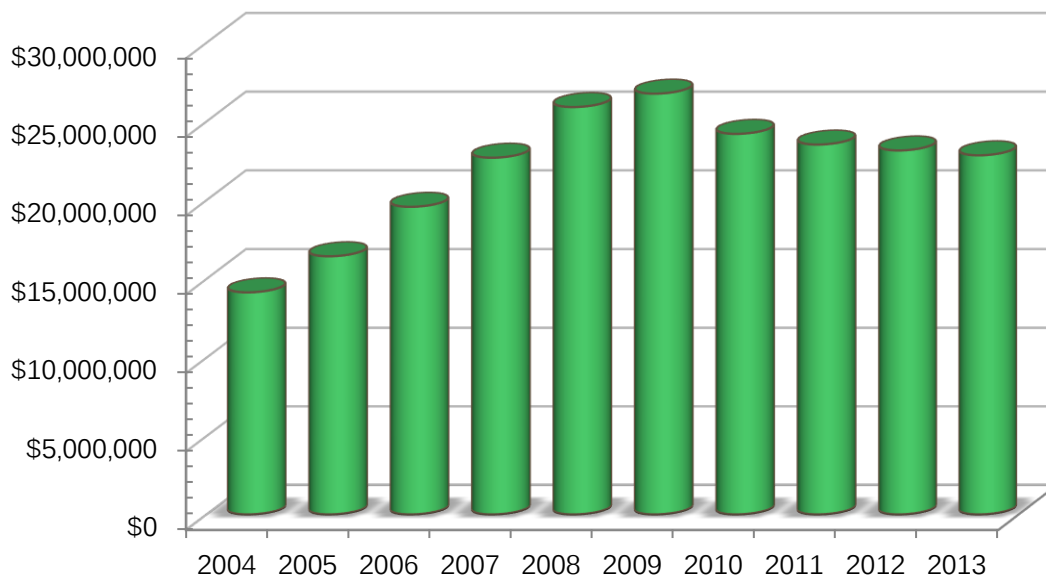
⁽²⁾ Miscellaneous expense includes \$1.4 million of non-capitalizable expenses with corresponding miscellaneous revenues. In prior years these expenses and revenues were presented, net of revenue, in miscellaneous revenues.

Source: Otay Water District

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

Fiscal Year	Real	Personal	Total	Total Direct Tax Rate
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%
2004	13,833,852,366	296,691,701	14,130,544,067	1.00%

Assessed Valuation of Property, In Thousands (\$)

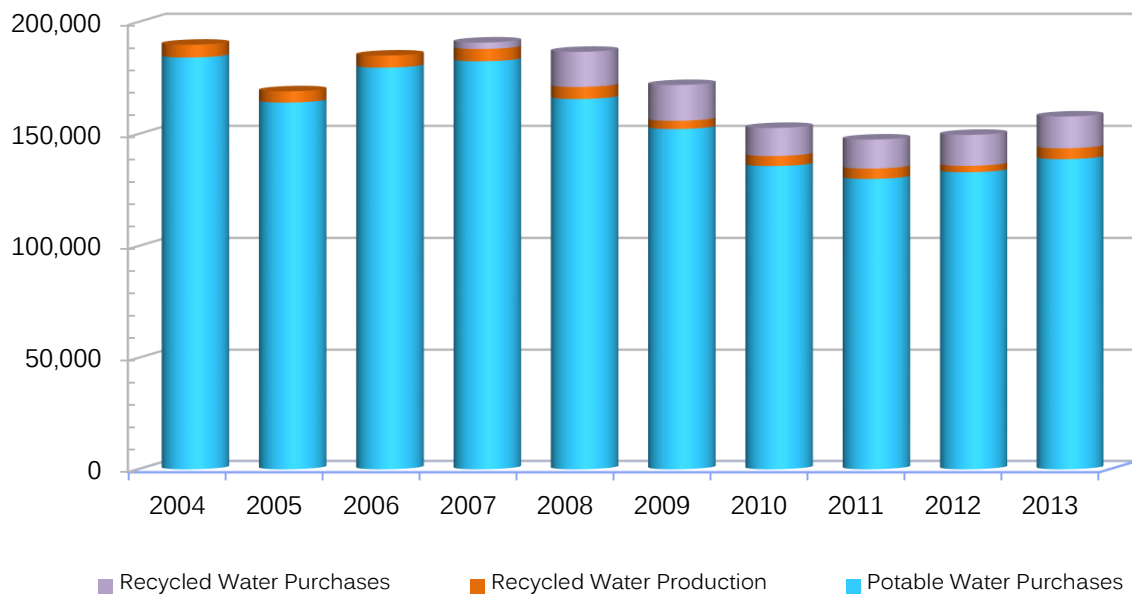


Source: County of San Diego Auditor and Controller

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

Fiscal Year	Potable Water ⁽¹⁾		Recycled Water ⁽¹⁾		
	Per 100 Cubic Feet		Per 100 Cubic Feet		
	Purchases	Sales	Production	Purchases	Sales
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
2004	18,424,007	14,711,176	568,589	-	1,492,453

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

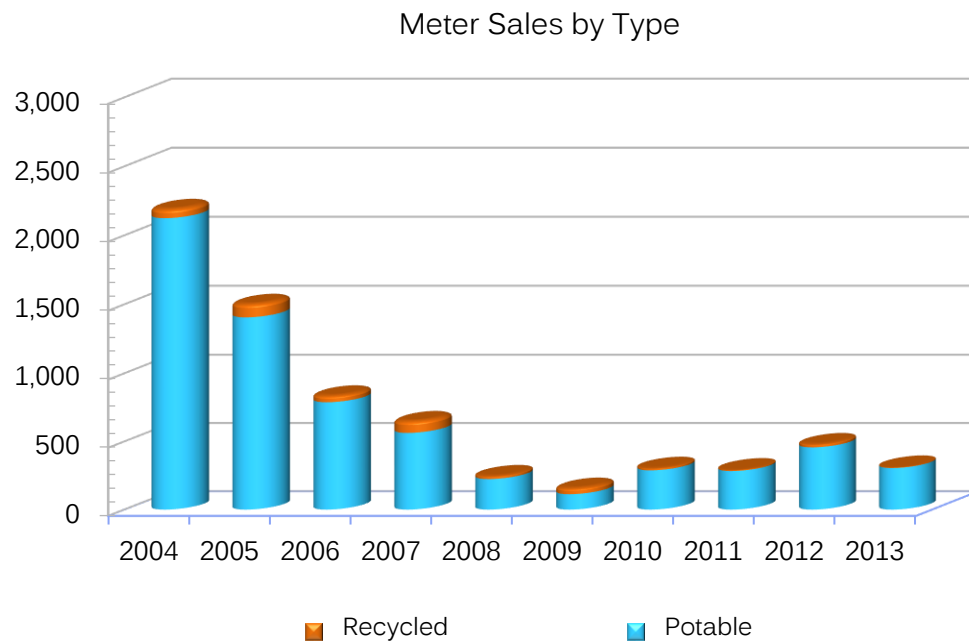


⁽¹⁾ Rates are not presented on this schedule because the District has multiple water rates for various meter sizes and customer classes and cannot represent rates in a meaningful manner with a weighted average rate. See Water and Sewer rates on [pages 78-79](#) for meter sizes and their corresponding 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.

Meter Sales by Type - Last Ten Fiscal Years

Fiscal Year	Potable	Recycled	Total
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
2004	2,125	64	2,189

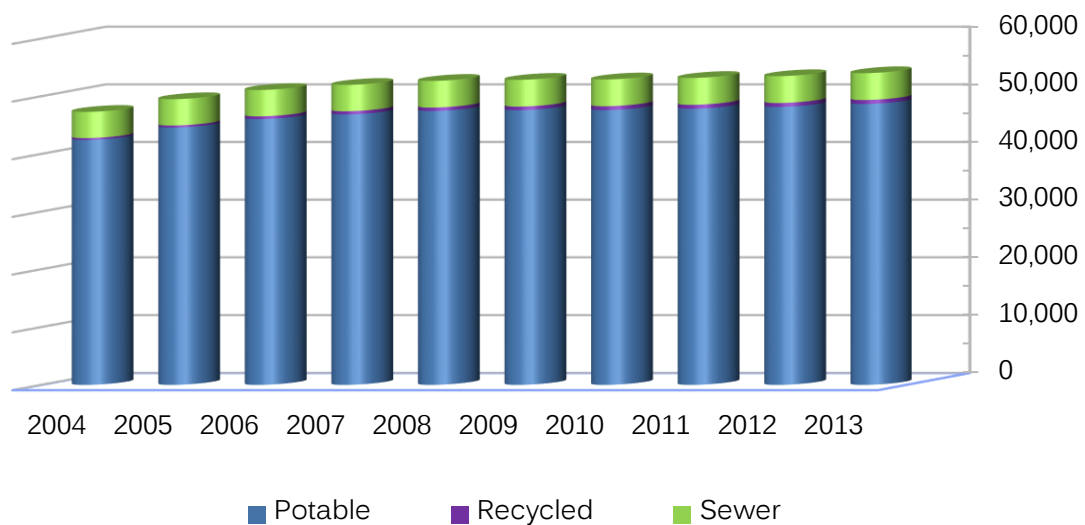


Source: Otay Water District

Number of Customers by Service Type - Last Ten Fiscal Years

Fiscal Year	Potable	Recycled	Sewer	Total
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
2004	44,583	348	4,548	49,479

Number of Customers by Service Type

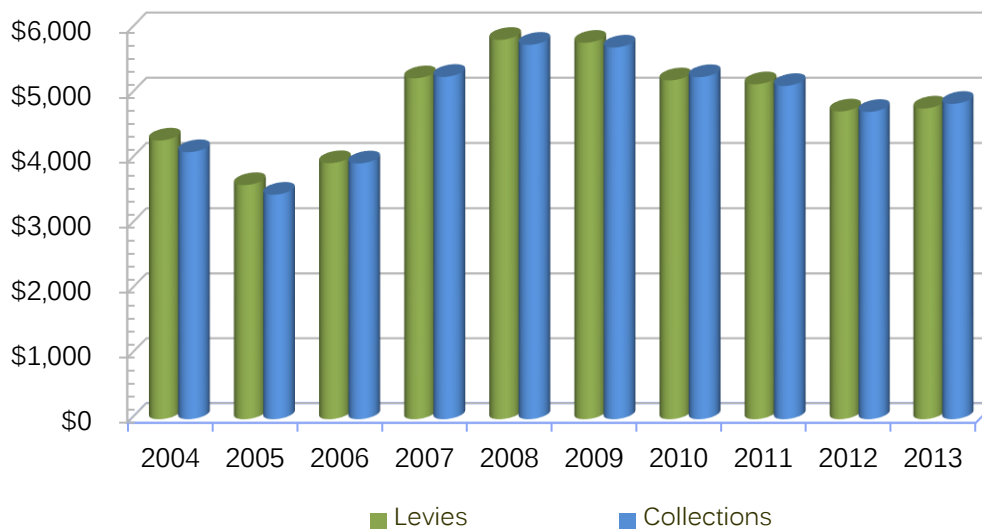


Source: Otay Water District

Property Tax Levies and Collections - Last Ten Fiscal Years

Fiscal Year	Total Levies	Total Collections ⁽¹⁾	End of Year Percent Collected	Collections in Subsequent Years	Total Percent Collected
2013	\$ 4,777,865	\$ 4,849,246	98.53%	\$ (71,381)	101%
2012	4,732,898	4,725,649	100.15%	7,249	100%
2011	5,149,055	5,123,709	100.49%	25,346	100%
2010	5,209,639	5,259,442	99.05%	(49,803)	101%
2009	5,786,115	5,712,831	101.28%	73,284	99%
2008	5,830,398	5,754,836	101.31%	75,563	99%
2007	5,241,379	5,263,367	99.58%	(21,988)	100%
2006	3,939,976	3,935,983	100.10%	3,993	100%
2005	3,603,586	3,455,852	104.27%	147,734	96%
2004	4,286,961	4,108,581	104.34%	178,380	96%

Levies and Collections, in Thousands (\$)



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

Source: Otay Water District

Water and Sewer Fixed Rates - Last Ten Fiscal Years

System Fee (Meter Size)	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<u>Residential</u>										
3/4"	\$ 16.74	\$ 14.58	\$ 14.58	\$ 14.58	\$ 13.83	\$ 12.30	\$ 11.30	\$ 10.25	\$ 10.25	\$ 10.25
1"	21.26	18.52	18.52	18.52	17.56	19.80	18.15	16.50	16.50	16.50
1.5"	32.57	28.37	28.37	28.37	26.90	51.95	35.75	32.50	32.50	32.50
<u>Non-Residential & Others</u>										
3/4"	16.74	14.58	14.58	14.58	13.83	24.00	22.00	20.00	20.00	20.00
1"	21.26	18.52	18.52	18.52	17.56	36.95	33.90	30.80	30.80	30.80
1.5"	32.57	28.37	28.37	28.37	26.90	51.95	47.50	43.30	43.30	43.30
2"	46.13	40.18	40.18	40.18	38.10	64.95	59.60	54.20	54.20	54.20
3"	82.29	71.68	71.68	71.68	67.98	104.55	95.90	87.20	87.20	87.20
4"	122.99	107.13	107.13	107.13	101.59	119.70	109.80	99.80	99.80	99.80
6"	236.02	205.59	205.59	205.59	194.96	239.20	219.45	199.50	199.50	199.50
8"	371.64	323.73	323.73	323.73	307.00	-	-	-	-	-
10"	529.88	461.57	461.57	461.57	437.71	456.60	418.90	380.50	380.50	380.50
<u>CWA and MWD Pass-through charges (Meter Size)</u>										
<u>Residential</u>										
3/4"	13.28	14.01	11.82	9.77	4.33	3.85	3.55	2.85	2.50	2.00
1"	22.12	23.33	19.69	16.28	6.91	6.15	5.65	4.55	4.00	3.20
1.5"	44.31	46.74	39.44	32.61	13.04	11.60	10.65	8.55	7.50	6.00
<u>Non-Residential & Others</u>										
3/4"	13.28	14.01	11.82	9.77	4.33	3.85	3.55	2.85	2.50	2.00
1"	22.12	23.33	19.69	16.28	6.91	6.15	5.65	4.55	4.00	3.20
1.5"	44.31	46.74	39.44	32.61	13.04	11.60	10.65	8.55	7.50	6.00
2"	70.85	74.74	63.07	52.15	22.54	20.05	18.45	14.80	13.00	10.40
3"	141.71	149.48	126.14	104.30	41.53	36.95	34.05	27.35	19.20	9.60
4"	221.43	233.58	197.17	162.98	70.98	63.15	58.20	46.75	41.00	16.40
6"	442.80	467.09	394.17	325.92	129.82	115.50	106.45	85.50	75.00	30.00
8"	708.53	747.39	630.71	521.51	374.62	-	-	-	-	-
10"	1,015.06	1,070.74	903.58	749.61	538.52	300.30	276.75	222.30	195.00	78.00
<u>Fire Services</u>										
All Types	34.57	30.11	30.11	30.11	28.55	25.40	23.30	21.20	21.20	21.20
Sewer Fixed Fee	45.30	41.75	39.39	36.88	33.26	32.70	30.90	26.90	23.35	20.95

Source: Otay Water District

Water and Sewer Variable Rates - Last Ten Fiscal Years

Usage Rate ⁽¹⁾	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<u>Residential</u>										
Tier 1	\$ 1.73	\$ 1.58	\$ 1.49	\$ 1.35	\$ 1.12	\$ 1.12	\$ 1.08	\$ 1.05	\$ 1.01	\$ 1.01
Tier 2	2.69	2.45	2.31	2.10	1.74	1.85	1.78	1.73	1.67	1.67
Tier 3	3.50	3.19	3.00	2.73	2.26	2.01	1.94	1.88	1.81	1.81
Tier 4	5.39	4.92	4.63	4.21	3.48	2.94	2.83	2.75	2.65	2.13
Tier 5				-	-	-	-	-	-	2.65
<u>Master Meter</u>										
Tier 1	2.66	2.43	2.29	2.08	1.72	1.85	1.78	1.73	1.67	1.78
Tier 2	3.45	3.15	2.97	2.70	2.23	2.01	1.94	1.88	1.81	-
Tier 3	5.32	4.85	4.57	4.15	3.43	2.94	2.83	2.75	2.65	-
<u>Public Agency & Commercial</u>										
Publicly-Owned ⁽²⁾						2.06	1.99	1.93	1.86	1.86
Commercial & Others ⁽³⁾						1.98	1.91	1.85	1.78	1.78
Government Fee ⁽²⁾	0.29	0.29	0.29	0.29	0.29	0.28	-	-	-	-
Tier 1	2.84	2.59	2.44	2.22	1.84					
Tier 2	2.92	2.66	2.50	2.27	1.88					
Tier 3	2.96	2.70	2.54	2.31	1.91					
<u>Landscape, Agricultural & Construction</u>										
Tier 1	3.87	3.53	3.32	3.02	2.50					
Tier 2	3.95	3.60	3.39	3.08	2.55					
Tier 3	4.01	3.66	3.45	3.14	2.60					
<u>Recycled</u>										
Recycled (Commercial)						1.67	1.65	1.57	1.51	1.51
Recycled (Publicly-Owned) ⁽²⁾						1.75	1.73	1.65	1.59	1.59
Tier 1	3.31	3.02	2.84	2.58	2.13					
Tier 2	3.35	3.06	2.88	2.62	2.17					
Tier 3	3.42	3.12	2.94	2.67	2.21					
<u>Energy Pumping Fee</u>										
Per 100 cubic feet ⁽⁴⁾	0.042	0.045	0.044	0.038	0.034	0.034	0.032	0.032	0.032	0.032

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

⁽²⁾ An additional \$.29 per unit 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 \$.042 per 100 cubic feet of water for each 100 feet of lift above the base elevation of 450 feet. All water customers are in one of twenty-nine zones based on elevation.

Source: Otay Water District

Ten Largest Customers - Current Year and Nine Years Ago

FISCAL YEAR 2013			
Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	\$ 3,079,176	4.3%
2. State of California	Publicly Owned	948,779	1.3%
3. County of San Diego	Publicly Owned	801,457	1.1%
4. City of San Diego	Publicly Owned	638,175	0.9%
5. Eastlake Country Club	Commercial	540,498	0.7%
6. Eastlake III Community	Commercial	539,273	0.7%
7. Sweetwater School District	Publicly Owned	460,200	0.6%
8. Highlands Golf Company, LLC	Commercial	454,086	0.6%
9. Chula Vista School District	Publicly Owned	448,741	0.6%
10. SANDAG	Publicly Owned	362,369	0.5%
Total (10 Largest)		\$ 8,272,754	11.5%
Other Customers		63,914,327	88.5%
Total Water Sales		\$ 72,187,081	100.0%

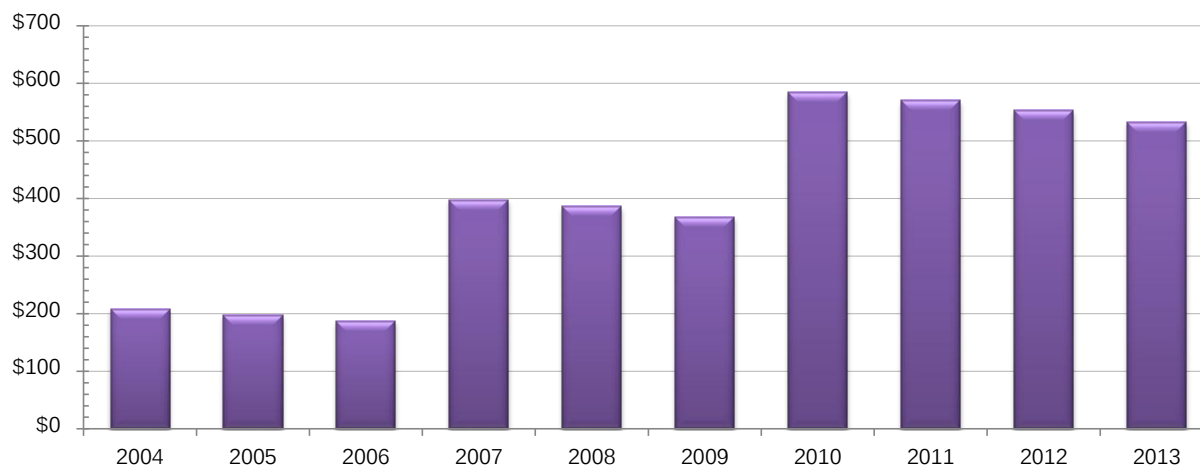
FISCAL YEAR 2004			
Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City of Chula Vista	Publicly Owned	\$ 1,127,011	2.9%
2. State of California	Publicly Owned	849,140	2.2%
3. County of San Diego	Publicly Owned	725,507	1.9%
4. Steele Canyon	Irrigation (Potable Permanent)	526,582	1.3%
5. Eastlake III	Business/Irrigation (Recycled)	419,942	1.1%
6. Singing Hills	Residential/Irrigation (Potable)	390,720	1.0%
7. McMillin	Construction (Potable)	377,591	1.0%
8. Eastlake Country Club	Irrigation (Recycled)	325,036	0.8%
9. California Bank & Trust	Irrigation (Recycled)	243,689	0.6%
10. Sweetwater School District	School/Irrigation (Recycled Publicly Owned)	224,054	0.6%
Total (10 Largest)		\$ 5,209,272	13.3%
Other Customers		33,835,440	86.7%
Total Water Sales		\$ 39,044,712	100.0%

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⁾
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%
2004	180,000	9,395,209	25,666,312	-	2,244,633	147,343	37,453,497	208.07	0.54%

Outstanding Debt, Per Capita



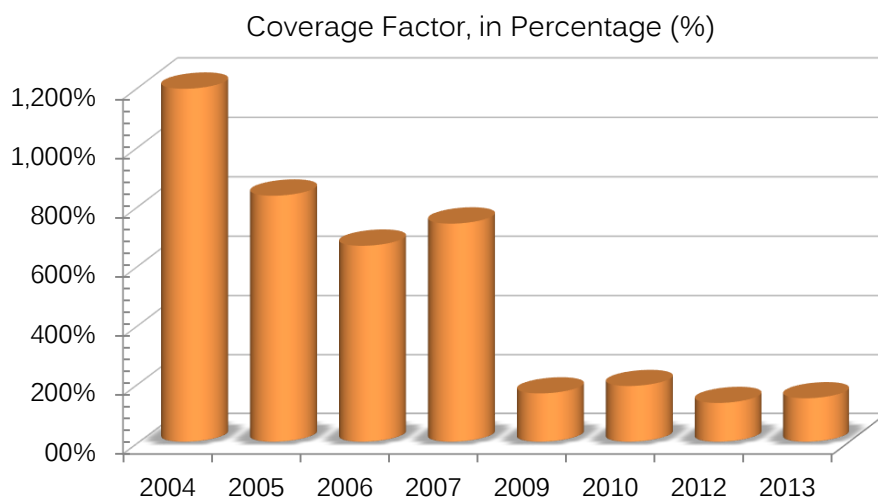
⁽¹⁾ See the Demographics and Economic Statistics schedule on [page 86](#) for personal income data.

⁽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	
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%
2004	57,195,289	38,980,975	18,214,314	635,000	891,796	1,526,796	1,193%



⁽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%.

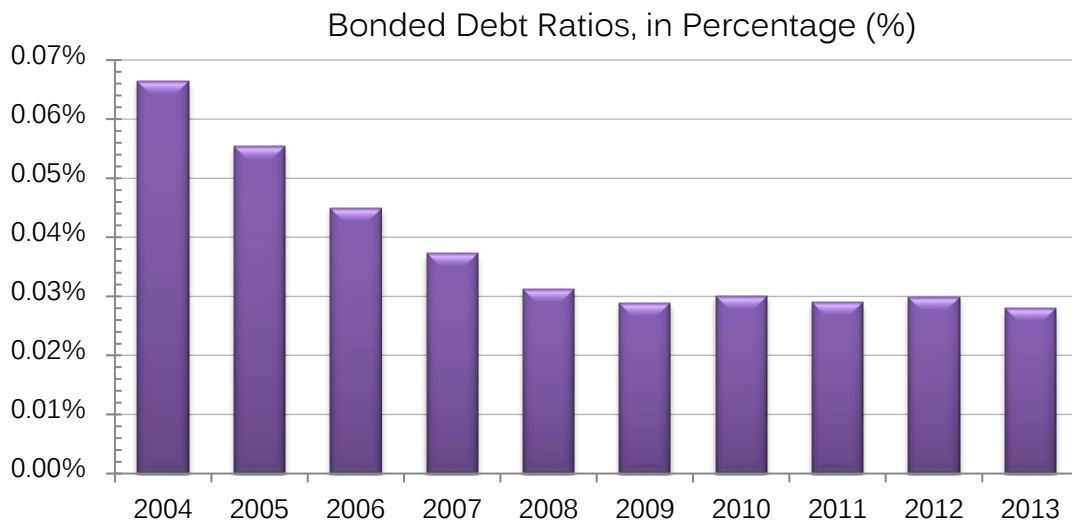
⁽⁴⁾ Pledge debts are Certificates of Participation (COPS) and Revenue Bonds.

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
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
2004	180,000	14,130,544,067	9,395,209	0.07%	52.20



Source: Otay Water District

Computation of Direct and Overlapping Bonded Debt

June 30, 2013

2012-13 Assessed Valuation:	\$22,836,336,223
Redevelopment Incremental Valuation:	<u>268,012,087</u>
Adjusted Assessed Valuation:	\$22,568,324,136
Total Overlapping Tax Increment Debt	1.38%

	Total Debt 6/30/13	% Applicable (1)	District's Share of Debt 6/30/13
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	\$ 165,085,000	1.085%	\$ 1,791,172
Otay Water District Improvement District No. 27	6,235,000	100.000	6,235,000
Grossmont-Cuyamaca Community College District	182,648,154	15.625	28,538,774
Southwestern Community College District	235,884,345	40.589	95,743,097
Grossmont Union High School District	406,100,095	16.057	65,207,492
Sweetwater Union High School District	361,299,415	48.502	175,237,442
Chula Vista City School District	97,160,000	60.525	58,806,090
San Ysidro School District	126,152,611	52.495	66,223,813
Other School Districts	3,494,839,142	Various	56,129,675
Grossmont Healthcare District	221,337,076	14.293	31,635,708
City of Chula Vista Community Facilities District	205,885,000	100.000	205,885,000
Chula Vista City School District Community Facilities Districts	5,040,000	100.000	5,040,000
Sweetwater Union High School District Community Facilities Districts	164,632,249	10.894-100.	154,386,575
City 1915 Act Bonds	44,237,400	28.742-100.	33,755,483
California Statewide Communities Development Authority			
San Diego County / Venture Community Center Assessment District	1,059,278	100.000	<u>1,059,278</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 985,674,599

Ratios to 2012-13 Assessed Valuation:

Direct Debt (\$6,235,000)	0.03%
Total Overlapping Tax and Assessment Debt	4.32%

DIRECT AND OVERLAPPING GENERAL FUND DEBT:

San Diego County General Fund Obligations	\$ 399,780,000	5.976%	\$ 23,890,853
San Diego County Pension Obligations	753,897,748	5.976	45,052,929
San Diego Superintendent of Schools Certificates of Participation	17,462,500	5.976	1,043,559
Otay Water District Certificates of Participation	48,145,000	100.000	48,145,000
Grossmont and Southwestern Community College District General Fund Obligations	2,655,000	15.625 & 40.589	725,646
Grossmont Union High School District Certificates of Participation	942,500	16.057	151,337
Sweetwater Union High School District Certificates of Participation	4,125,000	48.502	2,000,708
Chula Vista City School District Certificates of Participation	140,585,000	60.525	85,089,071
San Ysidro School District Certificates of Participation	42,932,385	52.495	22,537,356
Other School District Certificates of Participation	9,655,000	Various	2,405,929
City of Chula Vista Certificates of Participation	128,375,000	68.609	88,076,804
City of San Diego General Fund Obligations	533,235,000	0.948	5,055,068
San Miguel Consolidated Fire Protection District Certificates of Participation	5,230,000	52.567	<u>2,749,254</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 326,923,514
Less: Otay Water District Certificates of Participation (100% self-supporting)			<u>48,145,000</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 278,778,514

<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u>	\$ 21,625,000	17.075%	\$ 3,692,469
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TOTAL GROSS DIRECT DEBT	\$ 54,380,000
TOTAL NET DIRECT DEBT	\$ 6,235,000
TOTAL OVERLAPPING DEBT	\$1,261,910,582

GROSS COMBINED TOTAL DEBT	\$1,316,290,582	(2)
NET COMBINED TOTAL DEBT	\$1,268,145,582	

- (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 (\$54,380,000)	0.24%
Net Total Direct Debt (\$6,235,000)	0.03%
Gross Combined Total Debt	5.76%
Net Combined Total Debt	5.55%

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

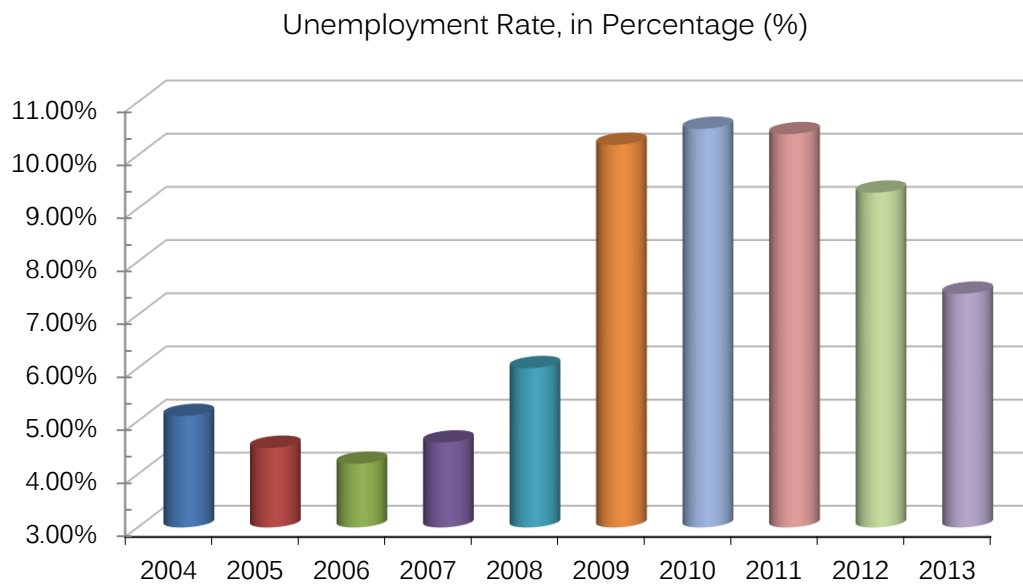
Principal Employers - Current Year and Nine Years Ago

Employer	2013			2004		
	Employees	Rank	% of Total County Employment	Employees	Rank	% of Total County Employment
U. S. Department of Defense	136,664	1	9.16%	-	-	0.00%
Federal Government	46,100	2	3.09%	39,700	1	2.87%
State of California	44,700	3	3.00%	38,200	2	2.77%
UC San Diego	26,000	4	1.74%	23,225	3	1.68%
County of San Diego	16,011	5	1.07%	17,886	5	1.29%
San Diego Unified School District	14,438	6	0.97%	20,472	4	1.48%
Sharp HealthCare	14,390	7	0.96%	12,896	6	0.93%
Scripps Health	13,000	8	0.87%	10,438	8	0.76%
Qualcomm Inc.	11,775	9	0.79%	-	-	0.00%
City of San Diego	10,296	10	0.69%	12,384	7	0.90%
US Postal Service, San Diego District	-	-	0.00%	6,464	9	0.47%
San Diego State University	-	-	0.00%	4,585	10	0.33%
Total	333,374		22.98%	186,250		13.48%

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
2013 ⁽¹⁾	3,197,400	\$ 161,100,000	\$ 50,400	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%
2004	2,938,822	113,003,044	38,452	5.10%

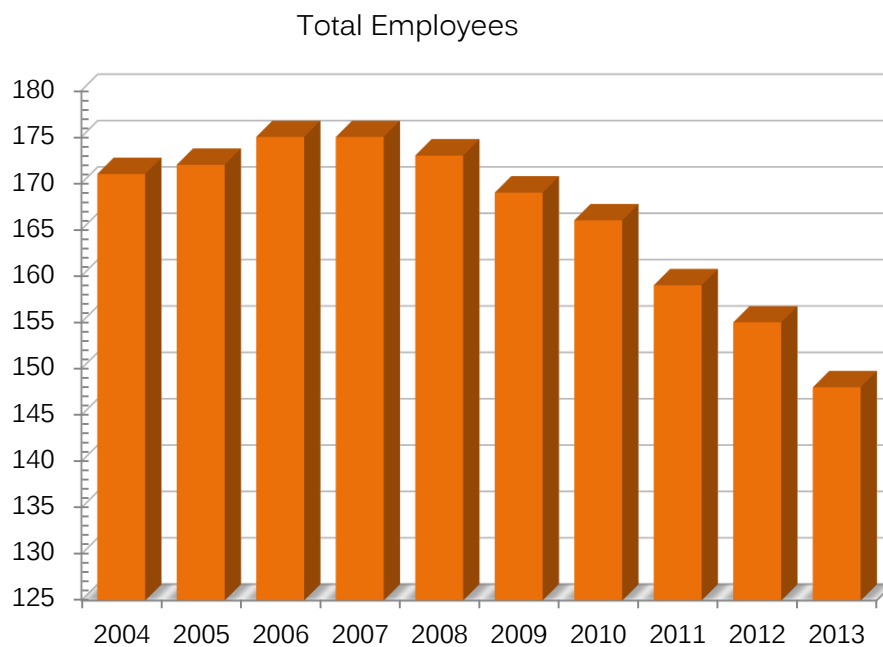


⁽¹⁾ Forecast

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	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Manager	5	5	6	6	6	6	6	6	6	4
Finance	30	32	35	38	37	36	35	34	34	33
Operations/Maintenance	65	66	66	68	70	71	71	72	71	70
Engineering	19	21	21	21	23	27	31	15	13	33
Administrative Services	17	18	19	20	20	20	19	19	20	21
IT and Strategic Planning	12	13	12	13	13	13	13	12	11	10
Development Services ⁽¹⁾	-	-	-	-	-	-	-	17	17	-
Total	148	155	159	166	169	173	175	175	172	171



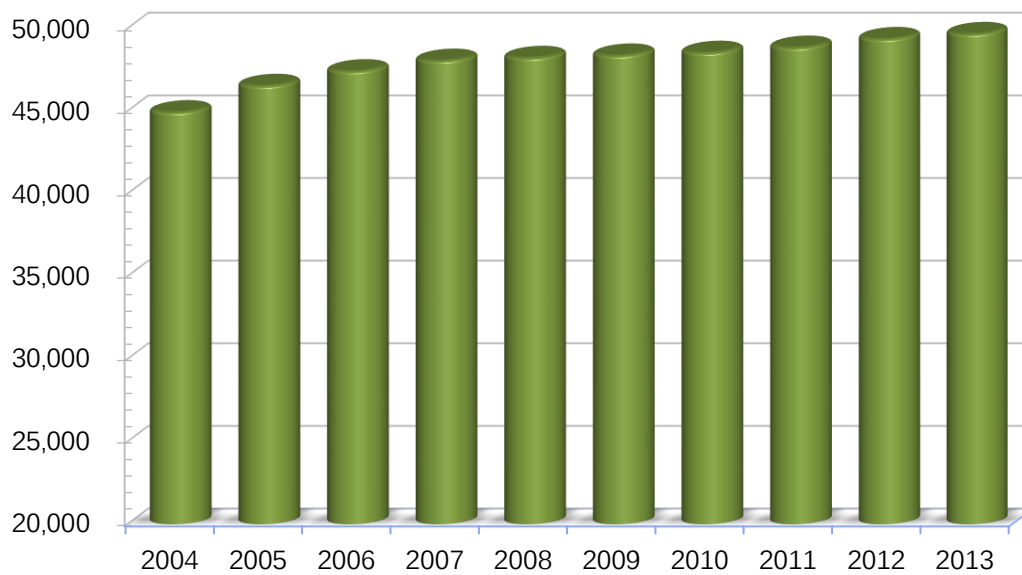
⁽¹⁾ Development Services was broken out from the Engineering and Planning Department in FY 2005 and then re-combined in FY 2007.

Source : Otay Water District

Active Meters by Size - Last Ten Fiscal Years

Meter Size	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
3/4" & 5/8"	44,354	44,376	44,065	43,815	43,641	43,551	43,544	43,070	42,420	41,069
1"	2,412	2,099	1,881	1,815	1,804	1,747	1,618	1,514	1,364	1,220
1-1/2"	1,333	1,326	1,317	1,317	1,309	1,275	1,242	1,199	1,147	1,037
2"	1,295	1,277	1,278	1,292	1,299	1,283	1,262	1,242	1,199	1,168
3"	76	75	75	75	75	76	76	69	67	66
4"	169	180	193	184	202	258	275	277	289	329
6"	18	19	21	22	21	19	24	27	27	27
Others	9	9	9	8	9	10	7	11	12	15
Total	49,666	49,361	48,839	48,528	48,360	48,219	48,048	47,409	46,525	44,931
% Change	0.6%	1.1%	0.6%	0.3%	0.3%	0.4%	1.3%	1.9%	3.5%	5.1%
Increase	305	522	311	168	141	171	639	884	1,594	2,181

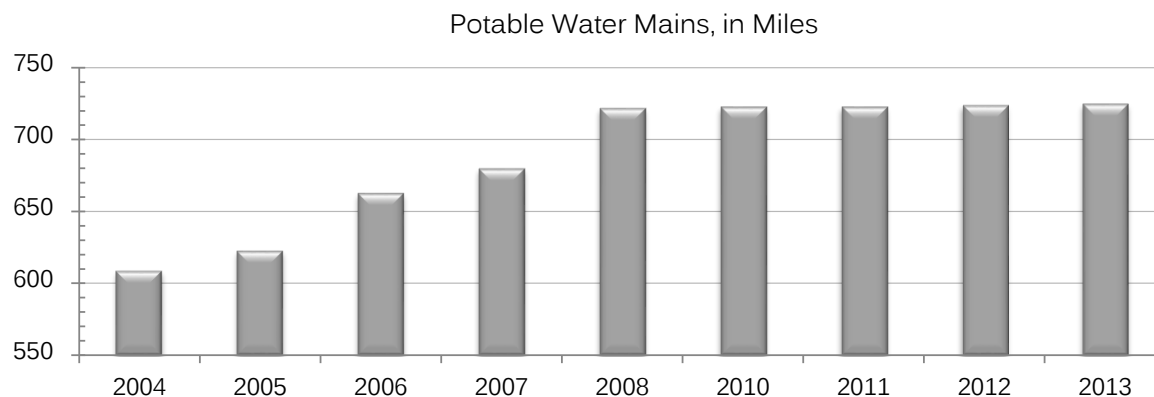
Active Meters by Size



Source: Otay Water District

Operating and Capital Indicators - Last Ten Fiscal Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
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	725	724	723	723	722	722	680	663	623	609
Number of Operational Storage Reservoirs in Service	40	40	40	40	38	36	37	37	36	37
Water Storage Capacity (in Acre-Feet)	667.79	670.83	673.84	663.8	655.5	605.5	601.7	601.7	582.4	585.4
Total Water Connections (No. of Meters in Service)	49,150	49,493	49,094	48,662	48,522	48,376	47,615	47,409	46,525	44,931
Number of Pump Stations	21	21	21	21	21	21	21	22	21	21
Number of Potable Water Valves	20,317	20,317	19,522	19,522	19,192	19,131	18,721	18,042	17,696	16,204
Sewer System										
Miles of Sewer Lines	88.0	88.0	88.0	88.0	88.0	88.0	86.2	86.2	85.9	85.4
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 2013 (in Million Gallons)	422	423	481	474	483	503	514	528	506	479
Recycled System										
Miles of Recycled Water Mains	99.0	99.0	98.0	98.0	97.0	93.0	83.0	77.6	76.4	70.7
Number of Pumping Facilities	3	3	3	3	3	3	3	2	2	2
Number of Operational Storage Reservoirs in Service	4	4	4	4	4	4	4	4	4	4
Number of Acre-Feet Storage	134.1	134.1	134.1	134.1	133.2	135.0	134.1	97.3	97.3	97.3
Number of Recycled Water Valves	1,430	1,430	1,380	1,380	1,338	1,314	1,245	1,189	1,155	1,097



Source : Otay Water District