



# Otay Water District

*Spring Valley, California*

## Comprehensive Annual Financial Report

*for the fiscal year ended June 30, 2009*







# Comprehensive Annual Financial Report

*Fiscal Year Ended June 30, 2009*

*Photo Courtesy of Garden Retreat Design*



*1296-3 Reservoir - June 2009*

Prepared by:

*Finance Department  
Spring Valley, California*

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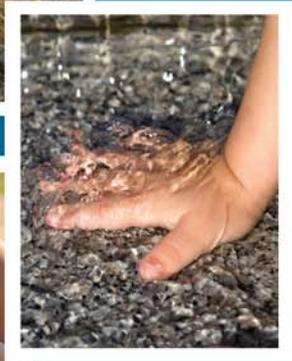
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# Introductory

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*...Dedicated to Community Service*

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

October 10, 2009

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, 2009.

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

The District's financial statements have been audited by Diehl, Evans & Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2009, are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

### REPORTING ENTITY

The District is a publicly-owned water and sewer agency, authorized on January 27, 1956 as a California special district by the State Legislature, with an entitlement to import water under the provisions of the Municipal Water District Act of 1911. Its ordinances, policies, taxes, and rates for service are set by five Directors, elected by voters in their respective divisions, to serve staggered four-year terms on its Governing Board. The District is a "revenue neutral" public

agency, meaning that each end-user pays only their fair share of the District's costs of water acquisitions and the construction, operation and maintenance, betterment, and renewal and replacement of the public water and sewer facilities.

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

Over the last 53 years, the District has grown from a handful of customers and two employees to become an organization operating a network with more than 923 miles of pipelines, 42 operational reservoirs, a reclaimed water facility, and one of the largest recycled water distribution networks in San Diego County. The character of the service area has also changed from predominantly dry-land farming and cattle ranching, to businesses, high-tech industries, and large master-planned communities.

Today the District provides water service to nearly 47,125 potable and 683 recycled customers within approximately 125.5 square miles of southeastern San Diego County.



All of the potable water sold to customers is purchased from the San Diego County Water Authority (CWA). Much of this water is purchased from the region's water importer, the Metropolitan Water District of Southern California (MWD). The District also has begun purchasing raw water from CWA and having it treated by the neighboring Helix Water District, at their Levy Water Treatment Plant. This action has brought regional water treatment closer to our customers and reduced dependence on water treatment located outside of San Diego proper.

The District also owns and operates a wastewater collection and recycling system to provide public sewer service to approximately 4,640 homes and businesses within portions of the communities of La Mesa, Rancho San Diego, El Cajon, Jamul, and Spring Valley. Wastewater collected is conveyed to the District's Ralph W. Chapman Water Recycling Facility (RWCWRF), which is capable of reclaiming wastewater at a rate of 1.3 million gallons per day. The District also purchases up to 6 million gallons per day of recycled water from the City of San Diego's South Bay Reclamation Plant. Recycled water from these two sources is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The use of recycled water reduces dependency on imported supplies and provides a local supply, thereby diversifying District resources.

## MISSION, CURRENT ECONOMIC CONDITIONS, AND OUTLOOK

The mission of the District is to provide customers with the best quality water, wastewater, and recycled water service in a professional, effective, and efficient manner. As in past years, we again face several key challenges. These challenges include: an economy in recession and continuing instability in the financial markets; ongoing home foreclosures; reduced rainfall throughout the Southwest; water shortages brought about by legal action to reduce water deliveries from the Sacramento – San Joaquin Bay Delta; and the higher cost of imported water. Given these uncertain times, the District must find the best solutions that balance the many expectations placed on it by its customers. Meeting our customers' expectations requires dedication, a commitment to continuous improvement, and the innovative use of technologies and resources.

While overall growth in San Diego County has slowed over the last three years, population within the District's service area continues to increase albeit at a much reduced rate. As of July 2009, it is estimated that the District served 195,000 residents. The San Diego Association of Governments (SANDAG), the regional planning agency, has estimated the District's growth will continue for a decade or more. The District projects an ultimate customer population of 277,000 residents.

## BUDGET SUMMARY

The District's Fiscal Year 2009 budget is \$113 million, with operating expenditures of \$75.7 million and capital expenditures of \$37.3 million. The District's goal is to provide the most effective and efficient service possible while maintaining affordability of the water supply for the community.

The Otay Water District's operating expenditures consist of three major sectors: potable water, recycled water, and sewer, totaling \$75,716,500 for Fiscal Year 2010. Revenues from potable and recycled water are projected to be \$64,077,000, about \$8.5 million (15.3%) more than Fiscal Year 2009. Water sales volumes are expected to decrease as a result of the slowing economy and expanded efforts to promote water conservation, however, rate increases are essential to offset the higher cost of water. Sewer revenues are projected to be \$2,244,800, about \$99,500 more than Fiscal Year 2009, because of necessary rate increases. The remaining revenue of \$9.4 million comes from special fees and assessments and miscellaneous income.

Significant aspects of the Operating Budget are:

- A balanced budget meeting the goals of the Strategic Plan.
- An updated six-year Rate Model to ensure sound financial planning and reserve levels.
- Unprecedented water supply rate increases of 21.1% from MWD and 18.1% from CWA because of the high cost of supply programs, higher energy and higher operating costs.
- Implemented rate increases in potable, recycled water, and sewer. This included pass-through rate increases from CWA, and County of San Diego.
- Expanded residential, landscape, and commercial water conservation programs.

- In response to the economic slowdown, the District has again reduced staffing levels from 169 full time equivalents to 166. It also cut operating expenditures by \$793,100 due to program funding changes and other discretionary spending cuts.
- Of San Diego County's 23 water agencies, Otay's water rate is the eighth-lowest and below the county-wide average.

The 2009-2010 Capital Improvement Budget (CIP) consists of 87 projects and a budget of \$37.3 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth. This year's CIP budget was increased by \$10.5 million, compared to last year's projection, due to new water supply projects.

### BUDGETING CONTROLS

The District views the budget as an essential tool for proper financial management. The budget is developed with input from the various departments of the organization and is adopted prior to the start of each fiscal year. It is designed and presented for the general needs of the District, its staff, and customers. It is a comprehensive and balanced financial plan that features District services, resources and their allocation, financial policies, and other useful information to allow the users to gain a general understanding of the District's financial status and future. Monthly comparison reports of budget to actual are prepared and distributed along with variance explanations to all department heads, with top level information provided to the Board at the monthly board meetings.

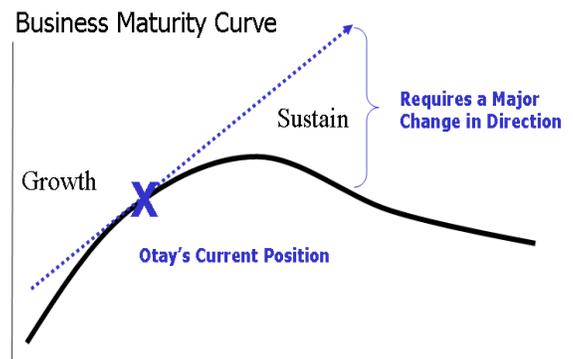
### STRATEGIC PLAN

The primary way to achieve our objectives is to improve all aspects of our core business processes. The main tool we will continue to use is the Strategic Business Plan. The District adopted its first Strategic Plan in 2003, and has updated it every three years. It is reviewed quarterly by management and semi-annually by the Board. This year it was updated for the 2009 through 2011 timeframe.

Efficiency improvements have become the new competitive advantage for utilities. As a result, the theme of the 2009 through 2011 Strategic Plan is to capitalize on the technology investments we have made and to utilize these technologies to continue to improve productivity and efficiency.

The Strategic Plan also carries forth the District's transformation from a growth-centric to a maintenance-based organization. Where capital and developer fees supported growth for many years, today we have become equally focused in managing long-term maintenance and replacement of our infrastructure.

This necessary change is illustrated by the business maturity curve. During high growth, we focus on



achieving the macro targets of building and installing new infrastructure. In the future, however, fewer resources are needed to support slowing growth, but the effort to maintain and improve infrastructure and assets increases. In future years the District will also derive income more from rates and less from fees. Consequently, increased costs place pressure on rates more directly. Therefore, to balance the customer's interest in minimizing rate increases while also maintaining its infrastructure investments and our strong financial position, the District will emphasize internal efficiency and development of technology assisted best practices. In effect, we will use our investments in technology to do more with the same or even fewer resources.

## The Future

The coming years will continue to be challenging times for those in California's water community. After years of record low precipitation that dramatically curtailed snow runoff from the Sierra Nevada Mountains, California's governor declared an official statewide drought. Following the governor's action, Southern California's largest water wholesaler, MWD, announced a water supply alert across its six-county service area. It also urged all local jurisdictions to implement water conservation ordinances and to "significantly increase efforts" to conserve water.

In addition to the governor's declaration, federal court orders have curtailed water deliveries from Northern California due to environmental factors in the Sacramento-San Joaquin Bay Delta. Worsening environmental conditions in the Bay Delta now challenge Southern California's ability to receive water from the State Water Project. A political stalemate in the state capital has also made finding compromise or addressing the environmental issues in the Bay Delta more difficult. These factors combined are driving higher costs for water across the state.



*Lake Oroville at 27% of Capacity – December 2008*

Through foresight and its investments in recycled water, conservation, and a water rate structure that rewards conservation, the Otay Water District has thus far avoided having to require mandatory water conservation. Rather, the District has achieved its water conservation goals using voluntary measures. As you would expect, the planned water sales reductions have impacted price and will continue to affect the District's finances. Staff continues working diligently to address the financial impacts of conservation as it prepares for the possibility of a severe water shortage and prolonged sales reductions.

With these factors in mind, our success as an organization is vastly enhanced by the practices and policies put in place by the Board of Directors to ensure the strength and stability of the District as we move forward into uncertain times. We are fully confident that, with the policies and practices put in place by the Board, supported by dedicated and talented staff, we will

achieve continued success as an organization and assure the well-being of the customers we serve.

### ACCOUNTING SYSTEM

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

### INTERNAL CONTROLS

Otay Water District operates within a system of internal controls established and continually reviewed by management. This provides reasonable assurance that assets are adequately safeguarded and transactions are recorded correctly according to District policies and procedures. When establishing or reviewing controls, management must consider the cost of the control and the value of the benefit derived from its utilization. Management normally maintains and implements all sensitive controls and those controls whose value adequately exceeds their cost.

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

### CASH MANAGEMENT

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

### RISK MANAGEMENT

In 2003, the District became a member of the Special District Risk Management Authority (SDRMA), a pool program which provides the District's coverage for property, auto, liability, health benefits, and workers' compensation claims. During Fiscal Year 2008-2009, the District continued its proactive liability risk management role through careful monitoring of losses and designing and implementing programs to minimize risks and losses. In addition, the District's Safety Committee analyzes workers' compensation issues by monitoring work conditions, and organizing and implementing safety training programs to reduce employee exposure to hazards.

## PENSION PLANS

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

## OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The District provides other post-employment benefits (OPEB) as a part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes healthcare and other forms of benefits (for example life insurance), in addition to the benefits provided from specific pension plans. During Fiscal Year 2007-2008 the District elected to set up an OPEB trust fund with CalPERS and pre-funded \$5.6 million of its net OPEB obligations, approximately half of the actuarial accrued liability, as of the latest actuarial projection, dated June 30, 2007. The District has also designated an additional \$5.8 million to allow for significant funding of the remaining obligations. For additional information see Note 8 to the Financial Statements.

## AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to Otay Water District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. This was the fifth consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The District also received a *Distinguished Budget Presentation Award* from the GFOA for the District's Operating and Capital Budget for Fiscal Year beginning July 1, 2008, as well as two awards from the CSMFO for *Excellence in Operating Budgeting* and *Excellence in Capital Budgeting*. These prestigious awards recognize conformance with the highest standards for preparation of state and local government financial reports.

The American Society of Civil Engineers (ASCE) presented Otay Water District and Infrastructure



Engineering Corporation the *2008 Outstanding Civil Engineering Project for Water Supply/Waste Water Treatment & Reuse for the 640 Reservoirs*. Additionally, the Construction Management Association of America (CMAA) presented Otay Water District the *2009 Project Achievement Award for the 640-1 and 640-2 Reservoirs* to recognize outstanding achievement in the practice of construction management.

The Otay Water District's Information Technology and Strategic Planning Department was awarded the *Best of California, Leadership and Excellence Award for 2008* from the Center for Digital Government, and the *Excellence in IT Practices Award* from the Municipal Information Systems Association of California (MISAC).

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

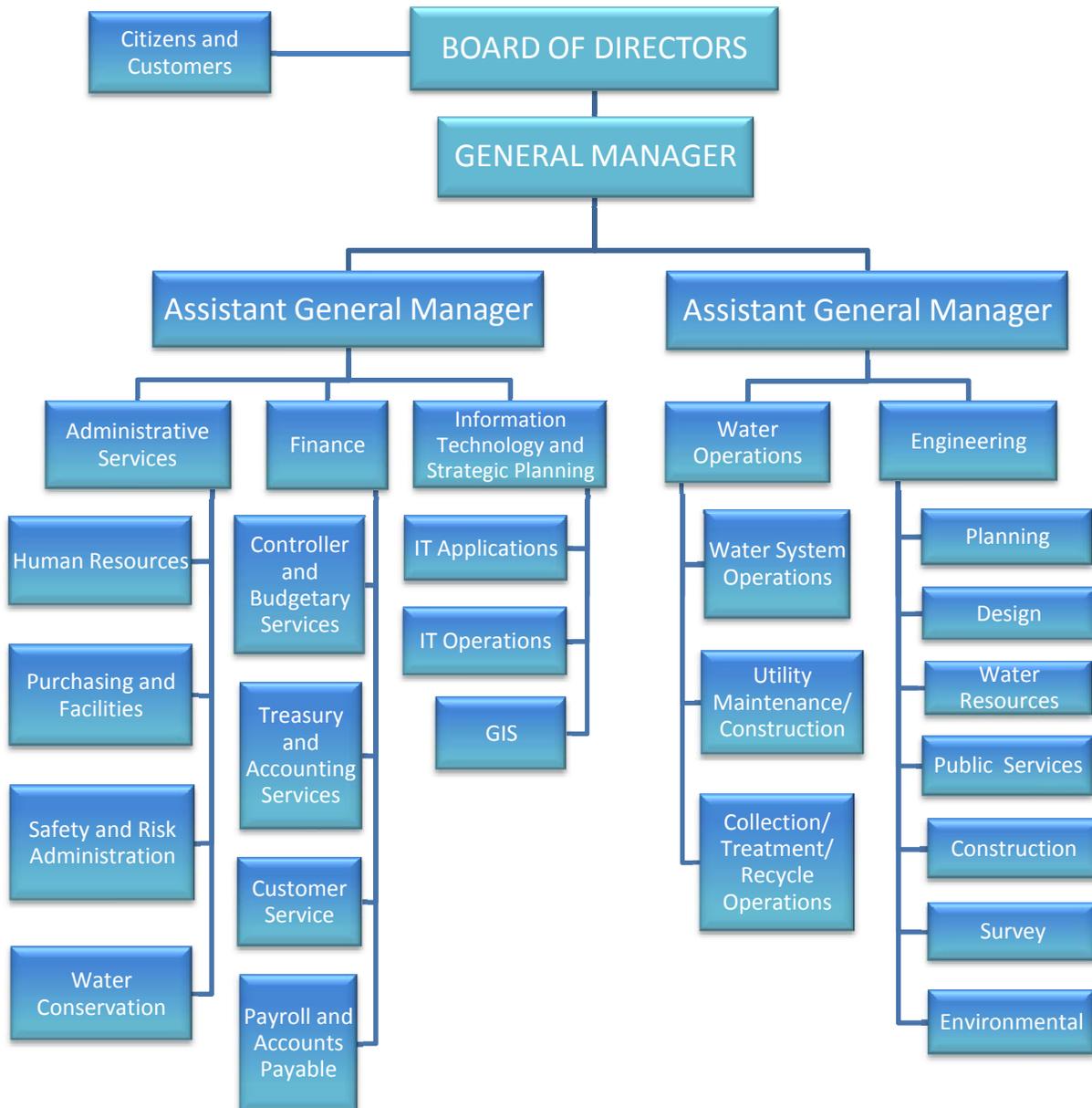


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Mark Watton, General Manager



## Organization Chart





## List of Principal Officials Fiscal Year 2008-2009

### **Board of Directors**



*Listed from Left to Right*

**Larry Breitfelder** - Division 1

**Jose Lopez** – Vice President, Division 4

**Jaime Bonilla** – Treasurer, Division 2

**Mark Robak** - Division 5

**Gary Croucher** - President, Division 3

### **District Financial Management**

**Mark Watton** - General Manager

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

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

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



# Award

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

Otay Water District  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2008

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



Handwritten signature of the President of the Government Finance Officers Association of the United States and Canada.

President

Handwritten signature of Jeffrey R. Enns, Executive Director of Otay Water District.

Executive Director

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# Financial

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**DIEHL, EVANS & COMPANY, LLP**  
 CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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 CRAIG W. SPRAKER, CPA  
 NITIN P. PATEL, CPA  
 ROBERT J. CALLANAN, CPA

October 10, 2009

\* A PROFESSIONAL CORPORATION

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
 Otay Water District  
 Spring Valley, California

We have audited the accompanying basic financial statements of Otay Water District as of and for the year ended June 30, 2009, as listed in the table of contents. These basic financial statements are the responsibility of the Otay Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of Otay Water District as of June 30, 2008, were audited by other auditors whose report dated October 24, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Otay Water District as of June 30, 2009, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as the accounting systems prescribed by the California State Controller's Office and State regulations governing Special Districts.

The Management's Discussion and Analysis and the other required supplementary information identified in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The Introductory and Statistical Sections are presented for purposes of additional analysis and are not a 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 express no opinion on them.

*Diehl, Evans and Company, LLP*

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# 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, 2009. 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 \$460.3 million (*net assets*). Of this amount, \$69.9 million (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$3.5 million. This is primarily attributable to capital contributions of \$7.0 million during the fiscal year.

## **Overview of the Financial Statements**

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

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

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

## **Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$460.3 million at the close of the most recent fiscal year.

By far the largest portion of the District's net assets, \$382.4 million (83%), reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



## Management's Discussion and Analysis

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Assets</b>			
Current and Other Assets	\$ 96.8	\$ 106.2	\$ 122.1
Capital Assets	454.1	446.7	424.3
<b>Total Assets</b>	<u>550.9</u>	<u>552.9</u>	<u>546.4</u>
<b>Liabilities</b>			
Long-term Debt Outstanding	69.1	71.6	74.2
Other Liabilities	21.5	24.5	25.2
<b>Total Liabilities</b>	<u>90.6</u>	<u>96.1</u>	<u>99.4</u>
<b>Net Assets</b>			
Invested in Capital Assets			
Net of Related Debt	382.4	372.7	374.6
Restricted for OPEB	6.2	5.6	0.0
Restricted for Debt Service	1.8	3.8	2.1
Unrestricted	69.9	74.7	70.3
<b>Total Net Assets</b>	<u>\$ 460.3</u>	<u>\$ 456.8</u>	<u>\$ 447.0</u>

At the end of FY-2009 the District is able to report positive balances in all categories of net assets. This situation also held true for the prior two fiscal years. In FY-2009 total Net Assets increased approximately \$3.5 million, to \$460.3 million, as compared to FY-2008 when Net Assets increased by over \$9.8 million. While the District's operations and population continue to grow, albeit at slower rates than in prior years, the pattern of reduced growth of the District's Net Assets is indicative of the reduction in new development projects within the District. This reduction is a result of the ongoing national housing slump and financial crisis.

The decrease in Current and Other Assets of \$15.9 million in FY-2008 corresponds with the increase in Capital Assets of \$22.4 million (net of accumulated depreciation), due to the District's substantial Capital Improvement Plan (CIP), which was financed in part by the issuance of \$42 million in Certificates of Participation (COPS-2007). (See Note 5 in the Notes to Financial Statements). In FY-2009 use of the COPS-2007 funds to finance the CIP program continued, contributing to the increase in Capital Assets of \$7.4 million. The use of the COPS-2007 funds is also reflected in the decrease of Current and Other Assets of \$9.4 million. (See Note 3 in the Notes to Financial Statements).



## Management's Discussion and Analysis

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Water Sales	\$ 52.4	\$ 50.8	\$ 48.6
Wastewater Revenue	2.2	2.4	2.6
Connection and Other Fees	2.5	2.5	2.1
Non-operating Revenues	<u>14.0</u>	<u>13.6</u>	<u>11.1</u>
Total Revenues	<u>71.1</u>	<u>69.3</u>	<u>64.4</u>
Depreciation Expense	12.5	13.0	10.8
Other Operating Expense	59.0	58.5	53.9
Non-operating Expense	<u>3.1</u>	<u>2.9</u>	<u>1.3</u>
Total Expenses	<u>74.6</u>	<u>74.4</u>	<u>66.0</u>
Loss Before Capital Contributions	(3.5)	(5.1)	(1.6)
Capital Contributions	<u>7.0</u>	<u>14.9</u>	<u>26.5</u>
Change in Net Assets	3.5	9.8	24.9
Beginning Net Assets	<u>456.8</u>	<u>447.0</u>	<u>422.1</u>
Ending Net Assets	<u>\$ 460.3</u>	<u>\$ 456.8</u>	<u>\$ 447.0</u>

Water Sales increased by \$2.2 million in FY-2008 and \$1.6 million in FY-2009, mainly due to reduced rainfall during both years as well as rate increases in both years. Growth also had a partial impact, with new water meter sales of 220 and 158 meters respectively. Despite a prolonged reduction in market rates of return, Non-operating Revenues increased by \$2.5 million in FY-2008 and an additional \$0.4 million in FY-2009, due to the increased level of investments from the COPS-2007, increased property tax revenues, and healthcare reimbursements from CalPERS for other post employment benefits (OPEB). (See Note 8 in the Notes to Financial Statements).

Depreciation Expense increased by \$2.2 million in FY-2008, due to a comprehensive review and write-off of long-term fixed assets that were obsolete and/or no longer serviceable. Other Operating Expense increased by approximately \$4.6 million in FY-2008 and another \$0.5 million in FY-2009 as a result of the cost of the additional water sold each year, as well as increases in outside services and higher pension costs. Non-operating Expense increased \$1.6 million in FY-2008 and an additional \$0.2 million in FY-2009 due to increased interest expense from the COPS-2007.

Capital Contributions were \$26.5 million in FY-2007 due to the completion of several developer construction projects. However, because of the nationwide housing mortgage crisis throughout the last 2 years, developers have either slowed-down or totally stopped work on as many projects as possible until economic conditions improve and the demand for growth returns, resulting in a decrease in Capital Contributions of \$11.6 million in FY-2008 and \$7.9 million in FY-2009.



# Management's Discussion and Analysis

## Capital Assets and Debt Administration

*Capital Assets.* The District's capital assets as of June 30, 2009, totaled \$454.1 million (net of accumulated depreciation). Included in this amount is land. The total increase in the District's capital assets was 5.3% for FY-2008 and 1.7% in FY-2009.

### Capital Assets (In Millions of Dollars)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land	\$ 13.4	\$ 13.0	\$ 13.0
Construction in Progress	18.3	42.3	40.3
Water System	403.1	365.6	356.6
Recycled Water System	96.8	93.0	73.5
Sewer System	37.2	36.7	37.7
Buildings	18.2	17.6	17.6
Field Equipment	9.5	9.5	9.3
Transportation Equipment	3.3	3.1	3.1
Communication Equipment	0.8	0.7	0.6
Office Equipment	<u>17.4</u>	<u>16.8</u>	<u>15.8</u>
	618.0	598.3	567.5
Less Accumulated Depreciation	<u>(163.9)</u>	<u>(151.6)</u>	<u>(143.2)</u>
Net Capital Assets	<u>\$ 454.1</u>	<u>\$ 446.7</u>	<u>\$ 424.3</u>

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

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

*Long-term Debt.* At June 30, 2009, the District had \$79.1 million in outstanding debt which consisted of the following:

General Obligation Bonds	\$ 7.3
Certificates of Participation	61.5
Notes Payable	<u>0.3</u>
Total Long-term Debt	<u>\$ 69.1</u>

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



# Management's Discussion and Analysis

## **Fiscal Year 2009-2010 Budget**

### **Economic Factors**

Growth in the San Diego area has slowed over the last 2 years, and demand for housing is reflected in a similarly reduced pace. Water sales volumes are expected to decrease as a result of the slowing economy and expanded efforts to promote water conservation, however, rate increases are essential to offset the higher cost of water. Ultimately, the District is projected to serve approximately 277,000 people, with an average daily demand of 56 million gallons per day (MGD). The District currently provides water service to about 70% of its total projected population, serving approximately 195,000 people. Long-term, this percentage should continue to increase as the District's service area continues to develop and grow.

The District is projected to deliver approximately 33,300 acre-feet of water to 47,125 potable customer accounts during Fiscal Year 2009-2010. Management feels that these projections are very realistic after accounting for low growth, supply changes, and a focus on conservation. Current economic conditions throughout America have created an unprecedented uncertainty for business and economic projections in the current fiscal year. The nationwide housing mortgage crisis has resulted in hundreds of foreclosures throughout the District. Additionally, the crisis in the banking and financial industry has begun to have a ripple effect of employee layoffs across a wide swath of the business community. One of the subsequent results of these two broad events is the relocation of many homeowners and renters into new housing arrangements throughout San Diego County. However, as housing patterns change throughout the District, people's need for water remains an underlying constant.

### **Financial**

The coming years will continue to be challenging times for those in California's water community. After years of record low precipitation that dramatically curtailed snow runoff from the Sierra Nevada Mountains, California's governor declared an official statewide drought. Following the governor's action, Southern California's largest water wholesaler announced a water supply alert across its six-county service area. It also urged all local jurisdictions to implement water conservation ordinances and to "significantly increase efforts" to conserve water. In addition to the drought, federal court orders have curtailed water deliveries from Northern California due to environmental factors in the Sacramento-San Joaquin Bay Delta. Worsening environmental conditions in the Bay Delta now challenge Southern California's ability to receive water from the State Water Project. A political stalemate in the state capital has also made finding compromise or addressing the environmental issues in the Bay Delta more difficult. These factors combined are driving higher costs for water across the state.

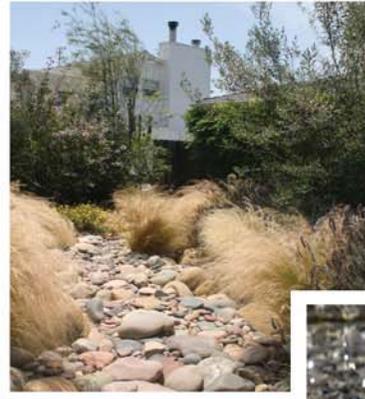
Through foresight and its investments in drought-proof recycled water, conservation, and a water rate structure that rewards conservation, the Otay Water District has thus far avoided having to require mandatory water conservation. Rather, the District has achieved its water conservation goals using voluntary measures. As you would expect, the planned water sales reductions have impacted price and will continue to affect the District's finances. Staff continues working diligently on developing new water supplies as it addresses the financial impacts of conservation, preparing for the possibility of a severe water shortage and prolonged sales reductions.

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

### **Contacting the District's Financial Management**

This financial report is designed to provide a general overview of the Otay Water District's finances for the Board of Directors, taxpayers, creditors, and other interested parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the District's Finance Department, 2554 Sweetwater Springs Blvd., Spring Valley, CA 91978-2004.

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## Basic Financial Statements



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## Statements of Net Assets June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents (Notes 1 and 2)	\$ 50,823,237	\$ 23,351,911
Restricted cash and cash equivalents (Notes 1 and 2)	1,760,631	3,753,983
Investments (Note 2)	26,169,080	60,682,507
Accounts receivable, net	8,029,609	7,689,720
Accrued interest receivable	319,186	715,900
Taxes and availability charges receivable, net	413,000	362,976
Restricted taxes and availability charges receivable, net	190,151	174,219
Inventories	816,865	711,240
Prepaid expenses and other current assets	976,045	1,908,028
	<u>89,497,804</u>	<u>99,350,484</u>
Total Current Assets		
Noncurrent Assets:		
Restricted Assets:		
Net OPEB asset (Note 8)	<u>6,204,876</u>	<u>5,649,008</u>
Total Restricted Assets	<u>6,204,876</u>	<u>5,649,008</u>
Deferred bond issuance costs (Note 4)	<u>1,142,762</u>	<u>1,240,166</u>
Capital Assets (Note 3):		
Land	13,402,840	13,025,364
Construction in progress	18,280,278	42,338,220
Capital assets, net of depreciation	<u>422,369,157</u>	<u>391,350,813</u>
Total capital assets, net of depreciaton	<u>454,052,275</u>	<u>446,714,397</u>
Total Non-current Assets	<u>461,399,913</u>	<u>453,603,571</u>
Total Assets	<u>550,897,717</u>	<u>552,954,055</u>



## Statements of Net Assets

### June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Current maturities of long-term debt (Note 5)	2,521,772	2,445,214
Accounts payable	11,565,953	13,705,566
Accrued payroll liabilities	2,548,731	2,491,182
Other accrued liabilities	444,875	1,615,403
Customer deposits	2,806,990	2,719,331
Accrued interest	706,934	720,545
Liabilities Payable From Restricted Assets:		
Restricted Accrued interest	<u>153,270</u>	<u>166,096</u>
 Total Current Liabilities	 <u>20,748,525</u>	 <u>23,863,337</u>
Noncurrent Liabilities:		
Long-term debt (Note 5):		
General Obligation Bonds	7,291,575	7,678,302
Certificates of Participation	61,468,693	63,192,774
Notes Payable	359,744	701,516
Other non-current liabilities	<u>684,309</u>	<u>690,709</u>
 Total Noncurrent Liabilities	 <u>69,804,321</u>	 <u>72,263,301</u>
 Total Liabilities	 <u>90,552,846</u>	 <u>96,126,638</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	382,410,491	372,696,591
Restricted for net OPEB asset	6,204,876	5,649,008
Restricted for debt service	1,797,512	3,762,106
Unrestricted	<u>69,931,992</u>	<u>74,719,712</u>
 Total Net Assets	 <u>\$ 460,344,871</u>	 <u>\$ 456,827,417</u>

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



## Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 52,428,648	\$ 50,808,825
Wastewater revenue	2,182,429	2,386,285
Connection and other fees	2,492,234	2,519,735
	<u>57,103,311</u>	<u>55,714,845</u>
<b>OPERATING EXPENSES</b>		
Cost of water sales	37,252,482	35,296,002
Wastewater	1,890,804	2,009,876
Administrative and general	19,888,161	21,127,922
Depreciation	12,475,714	13,040,572
	<u>71,507,161</u>	<u>71,474,372</u>
Operating Income (Loss)	(14,403,850)	(15,759,527)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment income	2,252,335	4,538,791
Taxes and assessments	4,586,823	4,591,023
Availability charges	625,065	744,722
Gain on sale of capital assets	5,206	15,243
Miscellaneous revenues	6,569,644	3,676,963
Donations	(95,270)	(80,541)
Interest expense	(1,340,110)	(2,601,252)
Miscellaneous expenses	(1,671,597)	(261,492)
	<u>10,932,096</u>	<u>10,623,457</u>
Total Nonoperating Revenues (Expenses)	10,932,096	10,623,457
Income (Loss) Before Capital Contributions	(3,471,754)	(5,136,070)
Capital Contributions	6,989,208	14,941,962
Changes in Net Assets	3,517,454	9,805,892
Total Net Assets, Beginning	<u>456,827,417</u>	<u>447,021,525</u>
Total Net Assets, Ending	<u>\$ 460,344,871</u>	<u>\$ 456,827,417</u>

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



## Statements of Cash Flows for the years ended June 30, 2009 and 2008

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 54,358,847	\$ 54,276,851
Receipts from connections and other fees	2,492,234	2,520,417
Other receipts	5,538,973	1,797,869
Payments to suppliers	(43,072,805)	(41,996,845)
Payments to employees	(18,947,144)	(23,670,840)
Other payments	(1,545,211)	(135,104)
Net Cash Provided (Used) by Operating Activities	(1,175,106)	(7,207,652)
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipts from taxes and assessments	4,520,867	4,497,682
Receipts from property rents and leases	1,070,881	977,313
Net amounts paid for acquisition and maintenance of demonstration garden	(95,270)	(80,541)
Net Cash Provided (Used) by Non-capital and Related Financing Activities	5,496,478	5,394,454
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital contributions	4,014,110	6,807,761
Proceeds from sale of capital assets	5,206	15,243
Proceeds from debt related taxes and assessments	625,065	744,722
Principal payments on long-term debt	(2,445,214)	(1,519,048)
Interest payments and fees	(1,366,547)	(2,597,498)
Acquisition and construction of capital assets	(16,838,494)	(27,359,800)
Net Cash Provided (Used) by Capital and Related Financing Activities	(16,005,874)	(23,908,620)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	2,494,196	5,381,971
Proceeds from sale and maturities of investments	70,703,937	88,909,995
Purchase of investments	(36,035,657)	(60,704,100)
Net Cash Provided (Used) by Investing Activities	37,162,476	33,587,866
Net Increase (Decrease) in Cash and cash equivalents	25,477,974	7,866,048
Cash and cash equivalents, Beginning	27,105,894	19,239,846
Cash and cash equivalents, Ending	\$ 52,583,868	\$ 27,105,894



## Statements of Cash Flows for the years ended June 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
<b>Reconciliation of operating income (loss) to net cash flows provided (used) by operating activities:</b>		
Operating income (loss)	\$ (14,403,850)	\$ (15,759,527)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	12,475,714	13,040,572
Miscellaneous revenues	5,538,973	2,712,869
Miscellaneous expenses	(1,545,211)	(135,104)
(Increase) decrease in accounts receivable	(339,889)	985,738
(Increase) decrease in inventory	(105,625)	(77,543)
(Increase) decrease in net OPEB asset	(555,868)	(5,649,008)
(Increase) decrease in prepaid expenses and other current assets	931,983	(743,728)
Increase (decrease) in accounts payable	(2,139,613)	(1,717,456)
Increase (decrease) in accrued payroll and related expenses	57,549	220,224
Increase (decrease) in other accrued liabilities	(1,170,528)	18,390
Increase (decrease) in customer deposits	87,659	96,685
Increase (decrease) in prepaid capacity fees	(6,400)	(199,764)
	<b>\$ (1,175,106)</b>	<b>\$ (7,207,652)</b>
<b>Schedule of Cash and Cash Equivalents:</b>		
Current assets:		
Cash and cash equivalents	\$ 50,823,237	\$ 23,351,911
Restricted cash and cash equivalents	1,760,631	3,753,983
	<b>\$ 52,583,868</b>	<b>\$ 27,105,894</b>
<b>Supplemental Disclosures:</b>		
Non-cash Investing and Financing Activities Consisted of the Following:		
Contributed Capital for Water and Sewer System	\$ 2,975,098	\$ 8,134,201
Change in Fair Value of Investments and Recognized Gains/Losses	21,613	109,847
Amortization Related to Long-Term Debt	126,387	126,387

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



# Notes to Financial Statements

## years ended June 30, 2009 and 2008

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
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# Notes to Financial Statements

## years ended June 30, 2009 and 2008

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

#### A) Reporting Entity

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

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

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

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

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

##### Invested in Capital Assets, Net of Related Debt

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

##### Restricted Net Assets

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

##### Unrestricted Net Assets

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

The District distinguishes operating revenues and expenses from those revenues and expenses that are nonoperating. 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. Nonoperating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and wastewater treatment services.

The District recognizes revenues from water sales, wastewater revenues, and meter fees as they are earned. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego, net of allowance for delinquencies of \$67,017 and \$59,688 at June 30, 2009 and 2008, respectively.



# Notes to Financial Statements

## years ended June 30, 2009 and 2008

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

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

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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

#### C) Statement of Cash Flows

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

#### D) Investments

The District's investments are stated at fair value, except for short-term investments, which are reported at cost, which approximates fair value. Investments in governmental investment pools are reported on the fair value per share, of the pool's underlying portfolio.

#### E) Inventory and Prepaids

Inventory consists primarily of materials used in the construction and maintenance of the water and sewer system and is valued at weighted average cost. Both inventory and prepaids use the consumption method whereby they are reported as an asset and expensed as they are consumed.

#### F) Capital Assets

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

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

See independent auditors' report.



# Notes to Financial Statements

## years ended June 30, 2009 and 2008

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

#### F) Capital Assets - Continued

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

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

#### G) Compensated Absences

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

#### H) Restricted Assets and Liabilities

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

#### I) Allowance for Doubtful Accounts

The District charges doubtful accounts arising from water sales receivable to bad debt expense when it is probable that the accounts will be uncollectible. Uncollectible accounts are determined by the allowance method based upon prior experience and management's assessment of the collectability of existing specific accounts. The allowance for doubtful accounts were \$17,531 and \$9,253 for 2009 and 2008 respectively.

#### J) Use of Estimates

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

#### K) Property Taxes

Tax levies are limited to 1% of full market value (at time of purchase) which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

The County of San Diego (the "County") bills and collects property taxes on behalf of the District. The County's tax calendar year is July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

#### L) Reclassifications

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

See independent auditors' report.



# Notes to Financial Statements

## years ended June 30, 2009 and 2008

### 2) CASH AND INVESTMENTS

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

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

Statement of Net Assets:	
Current Assets	
Cash and cash equivalents	\$ 50,823,237
Investments	26,169,080
Noncurrent restricted:	
Restricted Cash and cash equivalents	1,760,631
Total Cash and Investments	\$ 78,752,948

Cash and Investments consist of the following:

Cash on hand	\$ 2,800
Deposits with financial institutions	5,701,125
Investments	73,049,023
Total Cash and Investments	\$ 78,752,948

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

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

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

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

See independent auditors' report.



# Notes to Financial Statements

## years ended June 30, 2009 and 2008

### 2) CASH AND INVESTMENTS - Continued

#### Investments Authorized by Debt Agreements

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

#### Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

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	\$22,048,400	\$ -	\$22,048,400	\$ -	\$ -
Local Agency Investment Fund (LAIF)	7,489,943	7,489,943	-	-	-
Corporate Medium-Term Notes	4,120,680	-	4,120,680	-	-
San Diego County Pool	39,390,000	39,390,000	-	-	-
<b>Total</b>	<b>\$73,049,023</b>	<b>\$46,879,943</b>	<b>\$26,169,080</b>	<b>\$ -</b>	<b>\$ -</b>

#### Disclosures Relating to Credit Risk

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

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

See independent auditors' report.



## Notes to Financial Statements years ended June 30, 2009 and 2008

### 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 on 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 are as follows:

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

#### Custodial Credit Risk

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

As of June 30, 2009, \$2,454,830 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

As permitted by its Investment Policy, the District has placed funds with the San Diego County Pooled Fund. The pool may invest some of their portfolios in derivatives. Detailed information on derivative investments held by this pool is not readily available.

See independent auditors' report.



# Notes to Financial Statements

## years ended June 30, 2009 and 2008

### 2) CASH AND INVESTMENTS - Continued

#### Collateral for Deposits

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

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

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

### 3) CAPITAL ASSETS

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

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

Depreciation expense for the years ended June 30, 2009 and 2008 was \$12,475,714 and \$13,040,572, respectively.

See independent auditors' report.



# Notes to Financial Statements

## years ended June 30, 2009 and 2008

#### 4) OTHER NON-CURRENT ASSETS

Deferred bond issue costs totaled \$1,142,762 and \$1,198,791, net of accumulated amortization of \$296,309 and \$240,279 as of June 30, 2009 and 2008, respectively. The costs are amortized on the straight-line method based on the estimated term of the related bond debt. Amortization expense of \$56,030 for the years ended June 30, 2009 and 2008 is included in miscellaneous non-operating expenses.

#### 5) LONG-TERM DEBT

Long-term liabilities for the year ended June 30, 2009 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>General Obligation Bonds:</b>					
Improvement District No. 27	\$ 8,810,000	\$ -	\$ 415,000	\$ 8,395,000	\$ 435,000
Unamortized Bond Discount	(103,556)	-	(7,397)	(96,159)	-
Deferred Amount on Refunding	(613,142)	-	(40,876)	(572,266)	-
<b>Net General Obligation Bonds</b>	<b><u>8,093,302</u></b>	<b><u>-</u></b>	<b><u>366,727</u></b>	<b><u>7,726,575</u></b>	<b><u>435,000</u></b>
<b>Certificates of Participation:</b>					
1996 Certificates of Participation	12,500,000	-	400,000	12,100,000	400,000
2004 Certificates of Participation	10,835,000	-	515,000	10,320,000	530,000
2007 Certificates of Participation	42,000,000	-	785,000	41,215,000	815,000
1996 COPS Unamortized Discount	(14,158)	-	(745)	(13,413)	-
2007 COPS Unamortized Discount	(259,263)	-	(9,044)	(250,219)	-
2004 COPS Unamortized Premium	17,665	-	1,165	16,500	-
2004 COPS Deferred Amount on Refunding	(186,470)	-	(12,295)	(174,175)	-
<b>Net Certificates of Participation</b>	<b><u>64,892,774</u></b>	<b><u>-</u></b>	<b><u>1,679,081</u></b>	<b><u>63,213,693</u></b>	<b><u>1,745,000</u></b>
<b>Notes Payable:</b>					
State Water Resource Control Board	1,031,730	-	330,214	701,516	341,772
<b>Total Long-Term Liabilities</b>	<b><u>\$ 74,017,806</u></b>	<b><u>\$ -</u></b>	<b><u>\$2,376,022</u></b>	<b><u>\$ 71,641,784</u></b>	<b><u>\$2,521,772</u></b>

#### General Obligation Bonds

In June 1998, the District issued \$11,835,000 of General Obligation Refunding Bonds. The proceeds of this issue, together with other lawfully available monies, were to be used to establish an irrevocable escrow to advance refund and defease in their entirety the District's previous outstanding General Obligation Bond issue. These bonds are general obligations of Improvement District No. 27 (ID 27) of the District. The Board of Directors has the power and is obligated to levy annual ad valorem taxes without limitation, as to rate or amount for payment of the bonds and the interest upon all property which is within ID 27 and subject to taxation. The General Obligation Bonds are payable from District-wide tax revenues. The Board may utilize other sources for servicing the bond debt and interest.

See independent auditors' report.



# Notes to Financial Statements

## years ended June 30, 2009 and 2008

### 5) LONG-TERM DEBT - Continued

The refunding resulted in a deferred amount of \$1,021,903, which is being amortized over the remaining life of the refunded debt. Amortization for the years ended June 30, 2009 and 2008 was \$40,876 for each year and is included in miscellaneous non-operating expenses. As of June 30, 2009 and 2008, the amortized deferred amount of refunding is \$572,266, and \$613,142, respectively.

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

Future debt service requirements for the bonds are as follows:

For the Year Ended June 30,	Principal	Interest
2010	\$ 435,000	\$ 402,705
2011	455,000	382,235
2012	475,000	360,608
2013	495,000	337,565
2014	520,000	312,945
2015-2019	3,015,000	1,141,353
2020-2023	3,000,000	309,250
	<u>\$ 8,395,000</u>	<u>\$ 3,246,661</u>

### Certificates of Participation (COPS)

In June 1996, COPS with face value of \$15,400,000 were sold by the Otay Service Corporation to finance the cost of design, acquisition, and construction of certain capital improvements. An installment purchase agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS. The installment payments are to be paid from taxes and “net revenues,” as described in the installment agreement. The certificates bear interest at a variable weekly rate not to exceed 12%. The interest rate at June 30, 2009 was 0.25%. The installment payments are to be paid annually at \$350,000 to \$900,000 from September 1, 1996 through September 1, 2026.

In July 2004, Refunding Certificates of Participation (COPS) with a face value of \$12,270,000 were sold by the Otay Service Corporation to advance refund \$11,680,000 of outstanding 1993 COPS. An installment agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS. The installment payments are to be paid from taxes and “net revenues,” as described in the installment agreement. The certificates are due in annual installments of \$445,000 to \$895,000 from September 1, 2005 through September 1, 2023; bearing interest at 3% to 4.625%.



# Notes to Financial Statements

## years ended June 30, 2009 and 2008

### 5) LONG-TERM DEBT - Continued

#### Certificates of Participation (COPS) - Continued

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

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

For the Year Ended June 30,	1996 COPS		2004 COPS		2007 COPS	
	Principal	Interest*	Principal	Interest	Principal	Interest
2010	\$ 400,000	\$ 29,417	\$ 530,000	\$ 402,634	\$ 815,000	\$ 1,686,410
2011	400,000	28,417	545,000	386,236	850,000	1,655,395
2012	400,000	27,417	565,000	368,607	885,000	1,622,864
2013	500,000	26,208	580,000	349,566	920,000	1,589,020
2014	500,000	24,958	600,000	328,906	955,000	1,553,864
2015-2019	3,000,000	103,500	3,375,000	1,271,613	5,375,000	7,187,979
2020-2024	3,900,000	59,875	4,125,000	482,422	6,515,000	6,031,444
2025-2029	3,000,000	9,250	-	-	7,995,000	4,538,196
2030-2034	-	-	-	-	9,875,000	2,644,028
2035-2037	-	-	-	-	7,030,000	470,094
	<u>\$ 12,100,000</u>	<u>\$ 309,042</u>	<u>\$ 10,320,000</u>	<u>\$ 3,589,984</u>	<u>\$ 41,215,000</u>	<u>\$ 28,979,294</u>

\* Variable Rate - Interest reflected at June 30, 2009 at a rate of 0.25%.

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

#### Note Payable

In December 1990, the District entered into a 3.5% note payable to the State Water Resources Control Board. This note is unsecured and payable in annual installments of \$366,325 including principal and interest from 1992 through 2010. The total amount outstanding at June 30, 2009 and aggregate maturities of the note for the fiscal years subsequent to June 30, 2009, are as follows:

For the Year Ended June 30,	Principal	Interest
2010	\$ 341,772	\$ 24,553
2011	353,734	12,591
2012	6,010	1
	<u>\$ 701,516</u>	<u>\$ 37,145</u>

See independent auditors' report.



## Notes to Financial Statements years ended June 30, 2009 and 2008

### 6) NET ASSETS

#### Designated Net Assets

In addition to the restricted net assets, a portion of the unrestricted net assets have been designated by the Board of Directors for the following purposes as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Designated Betterment	\$ 2,969,722	\$ 804,769
Expansion Reserve	18,569,610	11,966,501
Replacement Reserve	26,388,812	31,785,910
Insurance Reserve	<u>8,436,721</u>	<u>10,458,191</u>
Total	<u>\$ 56,364,865</u>	<u>\$ 55,015,371</u>

### 7) DEFINED BENEFIT PENSION PLAN

#### Plan Description

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

#### Funding Policy

Active members in the Plan are required to contribute 8% of their annual covered salary. The District has elected to contribute 7% on behalf of its employees. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2009 was 19.369%. 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

## years ended June 30, 2009 and 2008

### 7) DEFINED BENEFIT PENSION PLAN - Continued

#### Annual Pension Costs

For the fiscal year ended June 30, 2009, the District's annual pension cost and actual contribution was \$2,150,579. The required contribution for the fiscal year ended June 30, 2009 was determined as part of the June 30, 2006 actuarial valuation.

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

Valuation Date	June 30, 2006
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	21 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (Net of Administrative Expenses)
Projected Salary Increase	3.25% to 14.45% Depending on Age, Service, and Type of Employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the Plan's date of entry into CalPERS. Subsequent Plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of the plan assets, then the amortization payment of the total unfunded liability may be lower than the payment calculated over a 30-year amortization period.

#### THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/09	\$ 2,150,579	100%	\$ 0
6/30/08	\$ 2,252,601	100%	\$ 0
6/30/07	\$ 1,925,758	100%	\$ 0

#### Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 75.6% funded. The actuarial accrued liability (AAL) for benefits was \$59,412,116, and the actuarial value of assets was \$44,910,326, resulting in an unfunded actuarial accrued liability (UAAL) of \$14,501,790. The covered payroll (annual payroll of active employees covered by the plan) was \$10,663,440, and the ratio of the UAAL to the covered payroll was 136.0%.

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

See independent auditors' report.



# Notes to Financial Statements

## years ended June 30, 2009 and 2008

### 8) OTHER POST EMPLOYMENT BENEFITS

#### Plan Description

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

#### Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. DHP members receiving benefits contribute based on their selected plan options of EPO, Silver or Gold and if they are located outside the State of California. Contributions by plan members range from \$0 to \$95 per month for coverage to age 65, and from \$0 to \$62 per month, respectively, thereafter.

#### Annual 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 7.7% of the annual covered payroll.

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

	<u>2009</u>	<u>2008</u>
Annual Required Contribution (ARC)	\$ 873,000	\$ 846,000
Interest on net OPEB asset	(437,798)	-
Adjustment to Annual Required Contribution (ARC)	489,999	-
Annual OPEB cost (expense)	925,201	846,000
Contributions made	1,481,069	6,495,008
Increase in net OPEB asset	(555,868)	(5,649,008)
Net OPEB asset - beginning of year	(5,649,008)	-
Net OPEB asset - end of year	<u>\$ (6,204,876)</u>	<u>\$ (5,649,008)</u>

For 2009, in addition to the ARC, the District contributed an implied subsidy (healthcare premium payments for retirees to Special District Risk Management Authority (SDRMA) ) in the amount of \$608,069, which is included in the \$1,481,069 of contributions shown above. For 2008 this amount was \$649,008, which is included in the \$6,495,008 of contributions shown above.

See independent auditors' report.



# Notes to Financial Statements

## years ended June 30, 2009 and 2008

### 8) OTHER POST EMPLOYMENT BENEFITS - Continued

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation/asset for the fiscal years 2009, 2008 and 2007 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Asset
6/30/09	\$ 925,201	100%	\$ (6,204,876)
6/30/08	\$ 846,000	100%	\$ (5,649,008)
6/30/07	*	*	*

\*The information for 6/30/2007 is unavailable. GASB 45 was implemented in fiscal year 2008.

#### Funded Status and Funding Progress

The funded status of the plan as of June 30, 2007, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$	11,408,000
Actuarial Value of Plan Assets	\$	0
Unfunded Actuarial Accrued Liability (UAAL)	\$	11,408,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)		0%
Covered Payroll (Active Plan Members)	\$	10,951,000
UAAL as a Percentage of Covered Payroll		104.2%

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

See independent auditors' report.



# Notes to Financial Statements

## years ended June 30, 2009 and 2008

### 8) OTHER POST EMPLOYMENT BENEFITS - Continued

#### Actuarial Methods and Assumptions

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

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

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	3.00%
Individual Salary Growth	CalPERS 1997-2002 Experience Study

### 9) WATER CONSERVATION AUTHORITY

In 1999 the District formed the Water Conservation Authority (the “Authority”), a Joint Powers Authority, with other local entities to construct, maintain and operate a xeriscape demonstration garden in the furtherance of water conservation. The authority is a non-profit public charity organization and is exempt from income taxes. During the years ended June 30, 2009 and 2008, the District contributed \$95,270 and \$80,541, respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

A summary of the Authority’s June 30, 2008 audited financial statement is as follows (latest report available):

Assets	\$ 2,513,701
Liabilities	77,469
Revenues, Gains and Other Support	782,019
Changes in Net Assets	(23,115)



## Notes to Financial Statements years ended June 30, 2009 and 2008

### 10) COMMITMENTS AND CONTINGENCIES

#### **Construction Commitments**

The District had committed to capital projects under construction with an estimated cost to complete of \$1,088,300 at June 30, 2009.

#### **Litigation**

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

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

The District has entered into an agreement with several developers whereby the developers prepaid the terminal storage fee in order to provide the District with the funds necessary to build additional storage capacity. The agreement further allows the developers to relinquish all or a portion of such water storage capacity. If the District grants to another property owner the relinquished storage capacity, the District shall refund to the applicable developer \$746 per equivalent dwelling unit (EDU). There were 17,867 EDUs that were subject to this agreement. At June 30, 2008, 1,750 EDUs had been relinquished and refunded, 14,622 EDUs had been connected, and 1,495 EDUs have neither been relinquished nor connected. At June 30, 2009, 1,750 EDUs had been relinquished and refunded, 14,662 EDUs had been connected, and 1,455 EDUs have neither been relinquished nor connected.

#### **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, 2009, none of the 3 outstanding developer agreements had been accepted, however it is anticipated that the District will be liable for an amount not to exceed \$20,300 at the point of acceptance. Accordingly, the District did not accrue a liability as of year end.

### 11) RISK MANAGEMENT

#### **General Liability**

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. Beginning in July 2003, the District began participation in an insurance pool through the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. The District pays an annual premium for commercial insurance covering general liability, excess liability, property, automobile, public employee dishonesty, and various other claims. Coverage limits range up to \$1 billion. Accordingly, the District retains no risk of loss. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "I" Street, Suite 300, Sacramento, CA 95814.

#### **Workers' Compensation**

Through SDRMA, the District is insured up to \$200,000,000 for Statutory Workers' Compensation and \$5,000,000 for Employers' Liability coverage with no deductible. SDRMA currently has a pool of 336 agencies in the Workers' Compensation Program.

See independent auditors' report.



## Notes to Financial Statements years ended June 30, 2009 and 2008

### 11) RISK MANAGEMENT - Continued

#### Health Insurance

Previously the District maintained a self-insurance program for health claims. Beginning in January 2008, the District began providing health insurance through SDRMA covering all of its employees, retirees, and other dependents. Prior estimated accrued claims outstanding at June 30, 2008 amounted to \$137,029, and all remaining claims were paid as of December 31, 2008. SDRMA is a self-funded pooled medical program administered in conjunction with the California State Association of Counties (CSAC).

#### Adequacy of Protection

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

### 12) INTEREST EXPENSE

Interest expense for the years ended June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Amount Expensed	\$ 1,340,110	\$ 2,601,252
Amount Capitalized as a Cost of Construction Projects	<u>1,353,153</u>	<u>373,282</u>
Total Interest	<u>\$ 2,693,263</u>	<u>\$ 2,974,534</u>

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## Required Supplementary Information



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# Required Supplementary Information years ended June 30, 2009 and 2008

## 1) 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]
6/30/07						
Miscellaneous	\$ 44,910,326	\$ 59,412,116	\$ 14,501,790	75.6%	\$ 10,663,440	136.0%
6/30/06						
Miscellaneous	\$ 40,321,483	\$ 54,228,041	\$ 13,906,558	74.4%	\$ 10,470,766	132.8%
6/30/05						
Miscellaneous	\$ 36,029,595	\$ 50,249,943	\$ 14,220,348	71.7%	\$ 10,005,158	142.1%

## 2) 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]
6/30/07						
Miscellaneous	\$ 0	\$ 11,408,000	\$ 11,408,000	0%	\$ 10,951,000	104.2%
6/30/06						
Miscellaneous	*	*	*	*	*	*

\*GASB 45 was implemented in fiscal year 2008. The information for the 2006 year is unavailable.

See independent auditors' report.

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Statistical

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## Statistical Schedules

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

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	<b>52</b>
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the factors affecting the District's ability to generate its water, reclaimed, and sewer sales as well as property and sales taxes.	<b>58</b>
<b>Debt</b> These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	<b>66</b>
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.	<b>70</b>
<b>Operating Information</b> These schedules contain information about the District's operation and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.	<b>72</b>

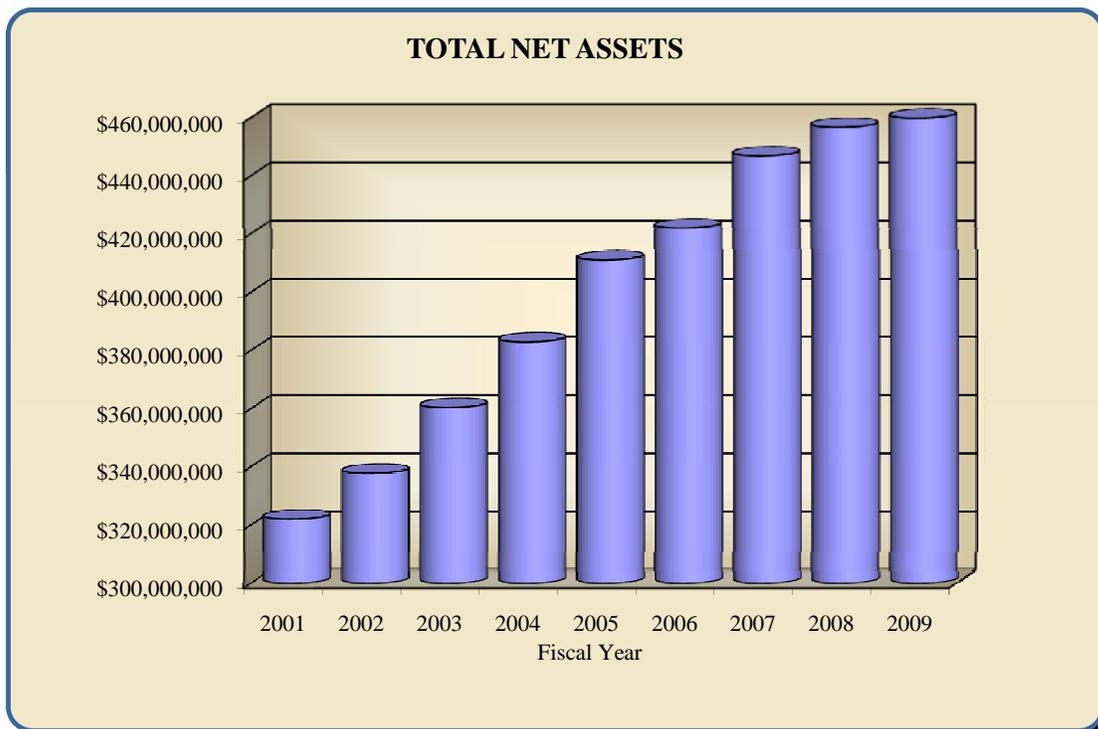
### **Sources**

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



## Net Assets by Component Last Ten Fiscal Years

Fiscal Year	Invested in Capital Assets Net of Related Debt	Restricted	Unrestricted	Total Net Assets
2009	\$ 382,410,491	\$ 8,002,388	\$ 69,931,992	\$ 460,344,871
2008	372,696,591	9,411,114	74,719,712	456,827,417
2007	374,667,591	2,071,307	70,282,627	447,021,525
2006	361,590,845	2,408,473	58,066,009	422,065,327
2005	325,676,089	16,188,364	69,224,020	411,088,473
2004	291,863,666	23,853,441	67,244,139	382,961,246
2003	269,579,907	40,945,837	49,828,535	360,354,279
2002	245,290,752	46,866,439	45,580,508	337,737,699
2001 (1)	237,230,807	42,923,480	41,854,311	322,008,598



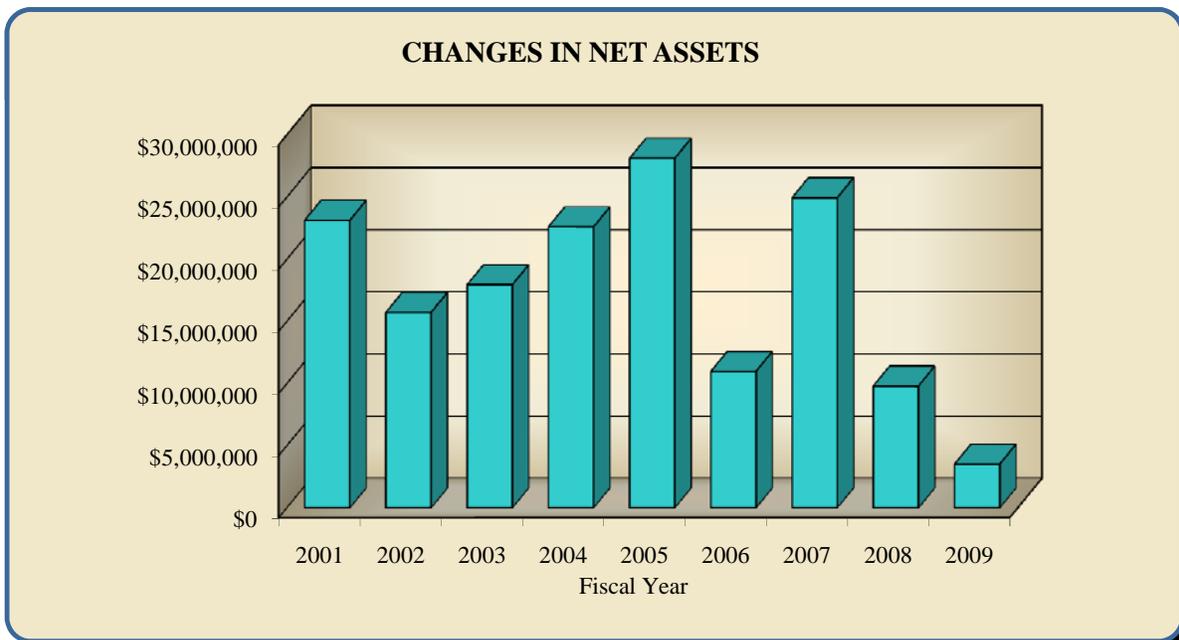
(1) As recommended by GASB 44, this schedule provides data retroactive to the year GASB 34 was implemented. The District implemented GASB 34 in Fiscal Year 2002 and presented comparative data for Fiscal Year 2001. Accordingly, the last nine fiscal years are presented.

*Source: Otay Water District*



## Changes in Net Assets Last Ten Fiscal Years

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income	Total			Change in Net Assets
				Non-Operating Revenues/ (Expenses)	Income (Loss) Before Capital Contributions	Capital Contributions	
2009	\$57,103,311	\$71,507,161	\$ (14,403,850)	\$ 10,932,096	\$ (3,471,754)	\$ 6,989,208	\$ 3,517,454
2008	55,714,845	71,474,372	(15,759,527)	10,623,457	(5,136,070)	14,941,962	9,805,892
2007	53,250,481	64,651,050	(11,400,569)	9,793,692	(1,606,877)	26,563,075	24,956,198
2006	47,861,088	59,528,094	(11,667,006)	7,242,280	(4,424,726)	15,401,580	10,976,854
2005	43,335,915	56,449,475	(13,113,560)	6,271,482	(6,842,078)	34,969,305	28,127,227
2004	41,539,293	51,516,096	(9,976,803)	3,484,492	(6,492,311)	29,099,278	22,606,967
2003	36,961,980	46,143,486	(9,181,506)	4,517,049	(4,664,457)	22,616,580	17,952,123
2002	37,312,385	43,509,038	(6,196,653)	6,193,303	(3,350)	15,732,451	15,729,101
2001 (1)	22,598,438	40,203,049	(17,604,611)	10,526,110	(7,078,501)	30,209,604	23,131,103



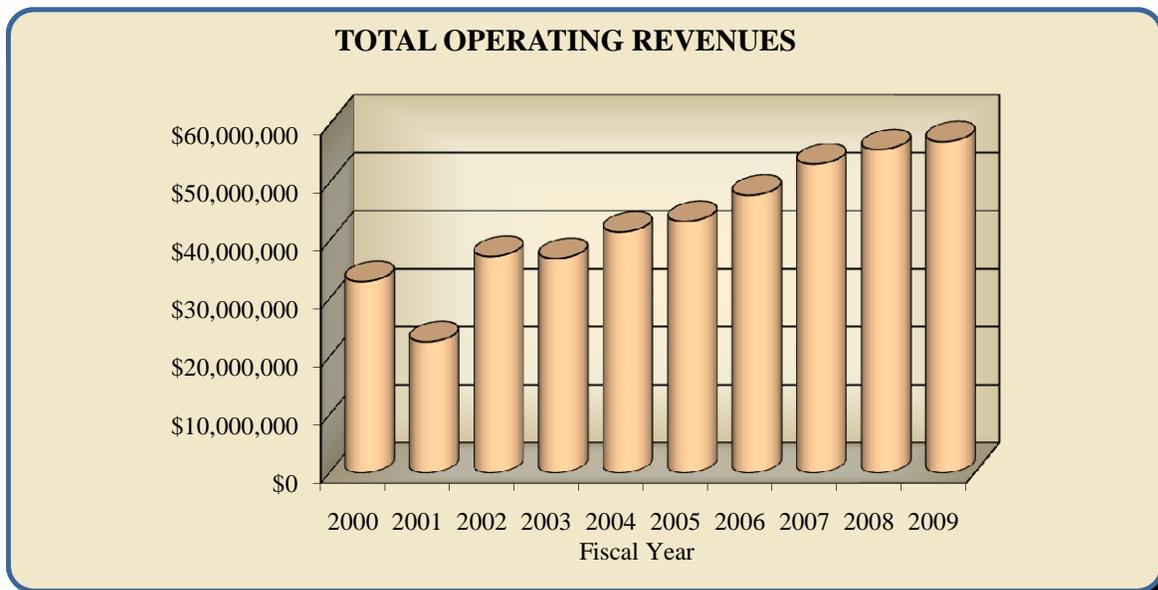
(1) As recommended by GASB 44, this schedule provides data retroactive to the year GASB 34 was implemented. The District implemented GASB 34 in Fiscal Year 2002 and presented comparative data for Fiscal Year 2001. Accordingly, the last nine fiscal years are presented.

*Source: Otay Water District*



## Operating Revenues by Source Last Ten Fiscal Years

Fiscal Year	Water Sales	Wastewater Revenue	Connection and Other Fees	Total	Percent Change
2009	\$ 52,428,648	\$ 2,182,429	\$ 2,492,234	\$ 57,103,311	2.5%
2008	50,808,825	2,386,285	2,519,735	55,714,845	4.6%
2007	48,605,606	2,604,431	2,040,444	53,250,481	11.3%
2006	43,755,610	2,331,094	1,774,384	47,861,088	10.4%
2005	39,348,056	2,018,596	1,969,263	43,335,915	4.3%
2004	39,044,712	1,774,366	720,215	41,539,293	12.4%
2003	34,621,890	1,648,227	691,863	36,961,980	-0.9%
2002	34,980,289	2,031,855	300,241	37,312,385	65.1%
2001	20,645,462 (1)	1,578,581	374,395	22,598,437	-31.5%
2000	30,928,092	1,742,537	333,389	33,004,018	24.2%



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

*Source: Otay Water District*



## Operating Expenses by Function Last Ten Fiscal Years

Year	Water Sales	Wastewater	Administrative and General	Depreciation	Total	Percent Change
2009	\$ 37,252,482	\$ 1,890,804	\$ 19,888,161	\$ 12,475,714	\$ 71,507,161	0.05%
2008	35,296,002	2,009,876	21,127,922	13,040,572	71,474,372	10.6%
2007	33,994,841	1,508,672	18,418,441	10,729,096	64,651,050	8.6%
2006	32,043,395	1,899,957	15,477,287	10,107,455	59,528,094	5.5%
2005	30,127,087	2,050,643	13,747,611	10,524,134	56,449,475	9.6%
2004	27,899,376	2,446,603	11,081,599	10,088,518	51,516,096	11.6%
2003	24,477,487	2,548,881	9,310,381	9,806,737	46,143,486	6.1%
2002	23,070,355	2,404,720	8,388,045	9,645,918	43,509,038	8.2%
2001	20,998,534	2,447,034	8,014,245	8,743,236	40,203,049	9.5%
2000	19,416,956	1,833,775	7,444,505	8,023,280	36,718,516	11.5%

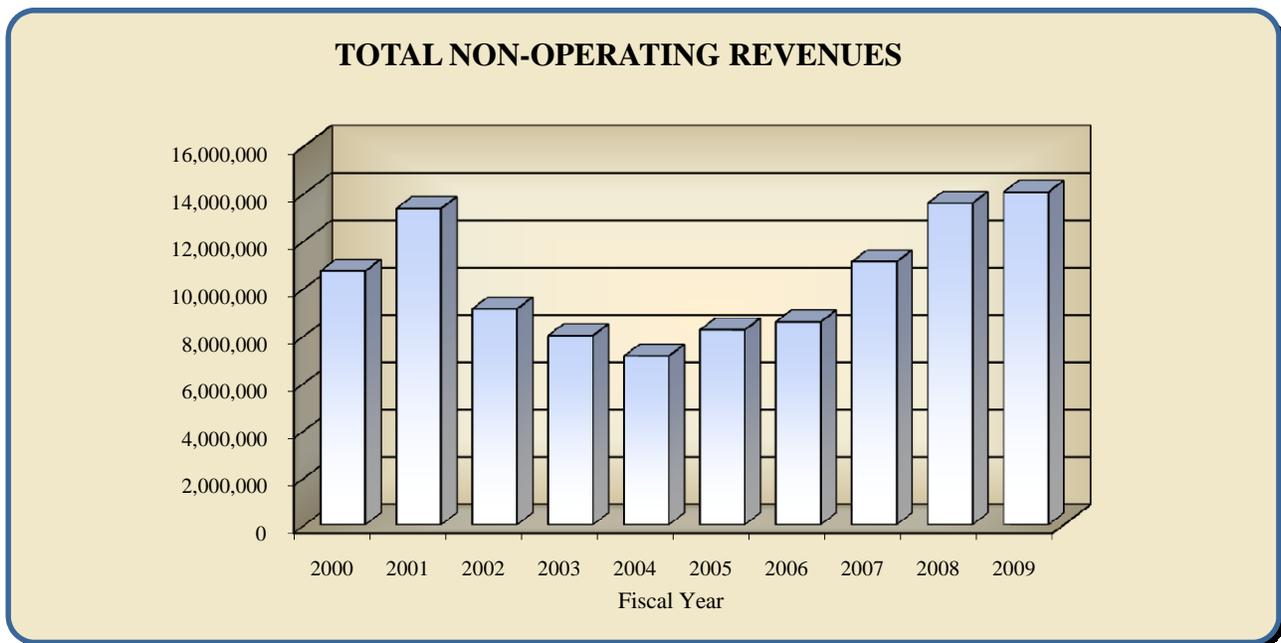


Source: Otay Water District



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

<u>Fiscal Year</u>	<u>Investment Income</u>	<u>Taxes and Assessments</u>	<u>Availability Charges</u>	<u>Miscellaneous</u>	<u>Total</u>	<u>Percent Change</u>
2009	\$ 2,252,335	\$ 4,586,823	\$ 625,065	\$ 6,574,850	\$ 14,039,073	3.5%
2008	4,538,791	4,591,023	744,722	3,692,206	13,566,742	22.3%
2007	4,416,342	4,151,956	715,664	1,811,619	11,095,581	29.7%
2006	3,188,645	2,779,635	609,099	1,978,632	8,556,011	4.1%
2005	2,052,292	2,326,526	556,590	3,285,128 (1)	8,220,536	15.5%
2004	1,097,449	3,071,685	1,132,278	1,816,967	7,118,379	-10.8%
2003	2,578,231	2,600,411	1,069,750	1,731,384	7,979,776	-12.4%
2002	4,466,383	2,381,170	1,052,222	1,207,920	9,107,695	-31.8%
2001	7,606,185	3,054,917	1,116,084	1,568,874	13,346,060	24.7%
2000	5,088,516	3,164,910	949,612	1,499,818	10,702,856	5.6%



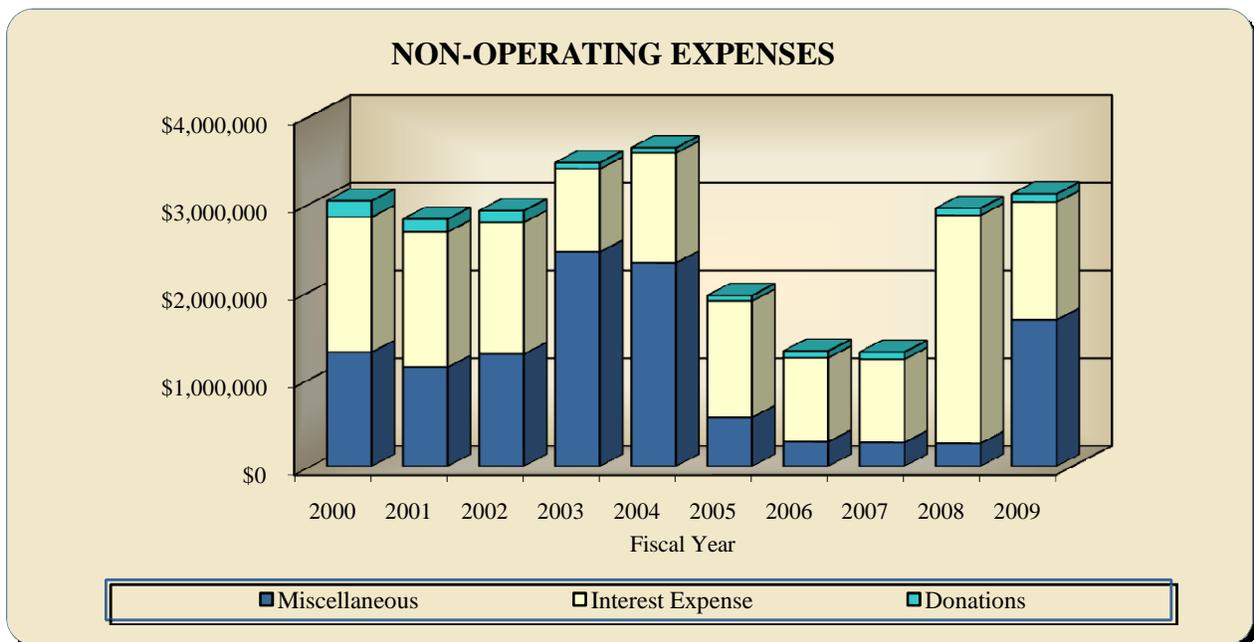
(1) The District sold capital assets during Fiscal Year 2005 which resulted in a gain of \$2,196,655.

*Source: Otay Water District*



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

Fiscal Year	Donations (1)	Interest Expense	Miscellaneous	Total	Percent Change
2009	\$ 95,270	\$ 1,340,110	\$ 1,671,597	\$ 3,106,977	5.6%
2008	80,541	2,601,252	261,492	2,943,285	126.1%
2007	80,000	950,479	271,410	1,301,889	-0.9%
2006	75,000	959,225	279,506	1,313,731	-32.6%
2005	61,411	1,327,844	559,799	1,949,054	-46.4%
2004	59,220	1,252,307	2,322,360	3,633,887	4.9%
2003	68,756	947,099	2,446,872	3,462,727	18.8%
2002	131,225	1,503,063	1,280,104	2,914,392	3.3%
2001	145,500	1,543,336	1,131,114	2,819,950	-6.8%
2000	184,507	1,540,592	1,301,961	3,027,060	-31.0%



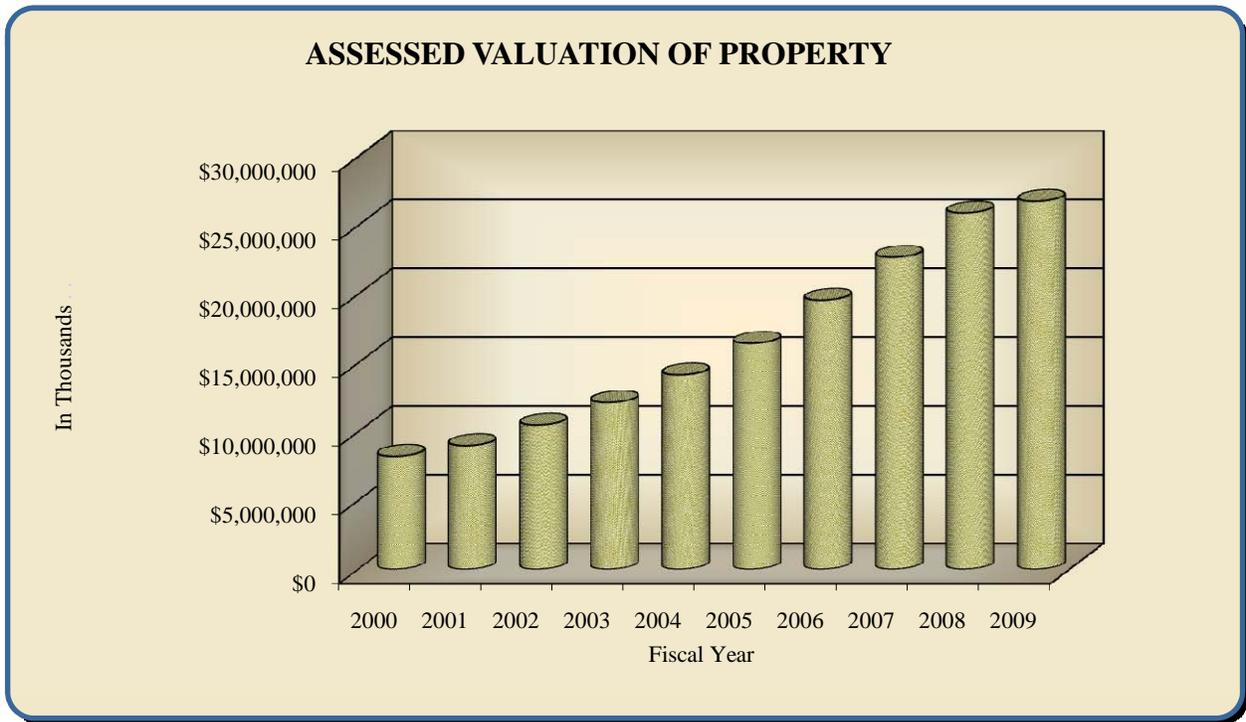
(1) Donations are contributions to the Water Conservation Authority formed in 1999. See Note 9 in the Notes to Financial Statements for more information.

Source: Otay Water District



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

Fiscal Year	Secured	Unsecured	Total	Percent Change
2009	\$ 26,269,630,081	\$ 482,465,611	\$ 26,752,095,692	3.28%
2008	25,333,821,005	568,975,196	25,902,796,201	14.19%
2007	22,166,251,649	518,441,943	22,684,693,592	15.94%
2006	19,204,029,184	361,636,280	19,565,665,464	19.13%
2005	16,121,465,817	301,937,884	16,423,403,701	16.23%
2004	13,833,852,366	296,691,701	14,130,544,067	16.50%
2003	11,786,410,218	343,253,933	12,129,664,151	15.63%
2002	10,239,985,732	249,933,698	10,489,919,430	16.67%
2001	8,767,643,482	223,676,433	8,991,319,915	9.33%
2000	7,809,527,552	414,404,800	8,223,932,352	15.61%

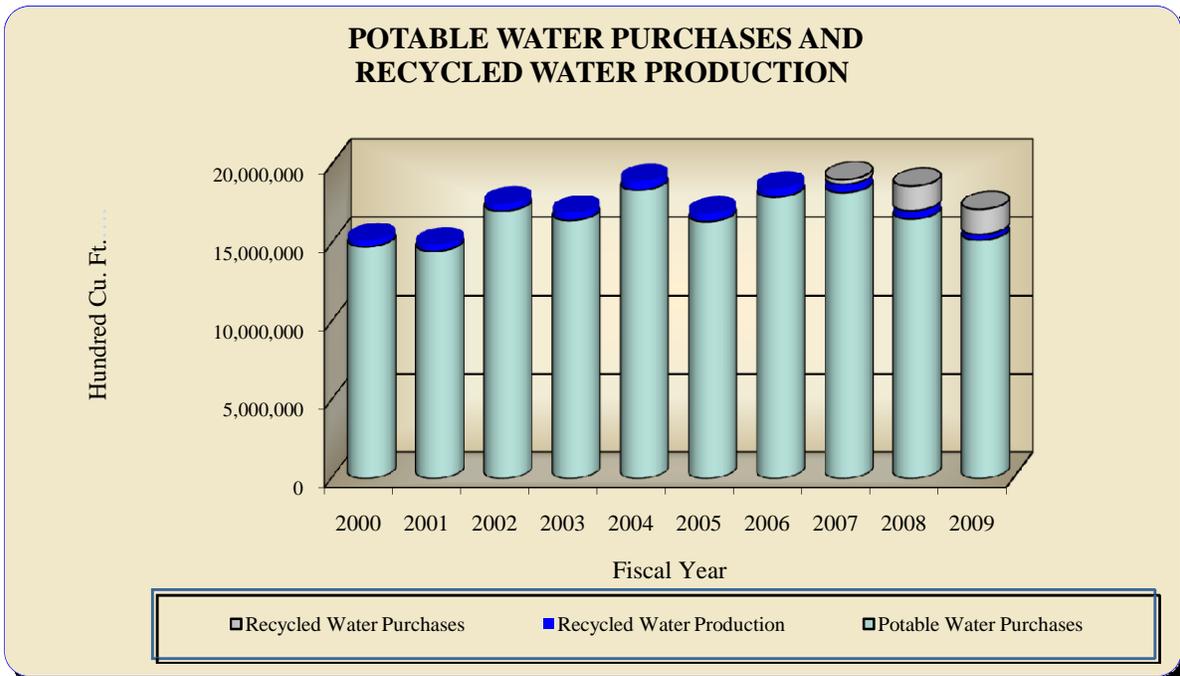


*Source: County of San Diego Auditor and Controller*



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

Fiscal Year	Potable Water (1)		Recycled Water (1)		
	Per 100 Cubic Feet		Production	Per 100 Cubic Feet	
	Purchases	Sales		Purchases	Sales
2009	15,233,498	14,923,843	367,461	1,593,621	1,991,737
2008	16,572,271	15,575,662	538,227	1,566,148	2,001,137
2007	18,255,735	16,059,464	550,206	284,499 (2)	1,920,287
2006	17,972,146	14,723,988	537,400	-	1,722,057
2005	16,412,711	13,708,001	501,114	-	1,447,020
2004	18,424,007	14,711,176	568,589	-	1,492,453
2003	16,486,502	13,613,885	486,739	-	1,109,691
2002	17,084,537	13,723,241	471,581	-	1,000,007
2001	14,521,902	12,057,399	418,873	-	674,670
2000	14,801,644	12,023,682	408,636	-	564,843



(1) Rates are not presented on this schedule because the District has multiple water rates for various meter sizes and cannot represent rates in a meaningful manner with a weighted average rate. See Water and Sewer rates on page 63 for meter sizes and their corresponding water rates.

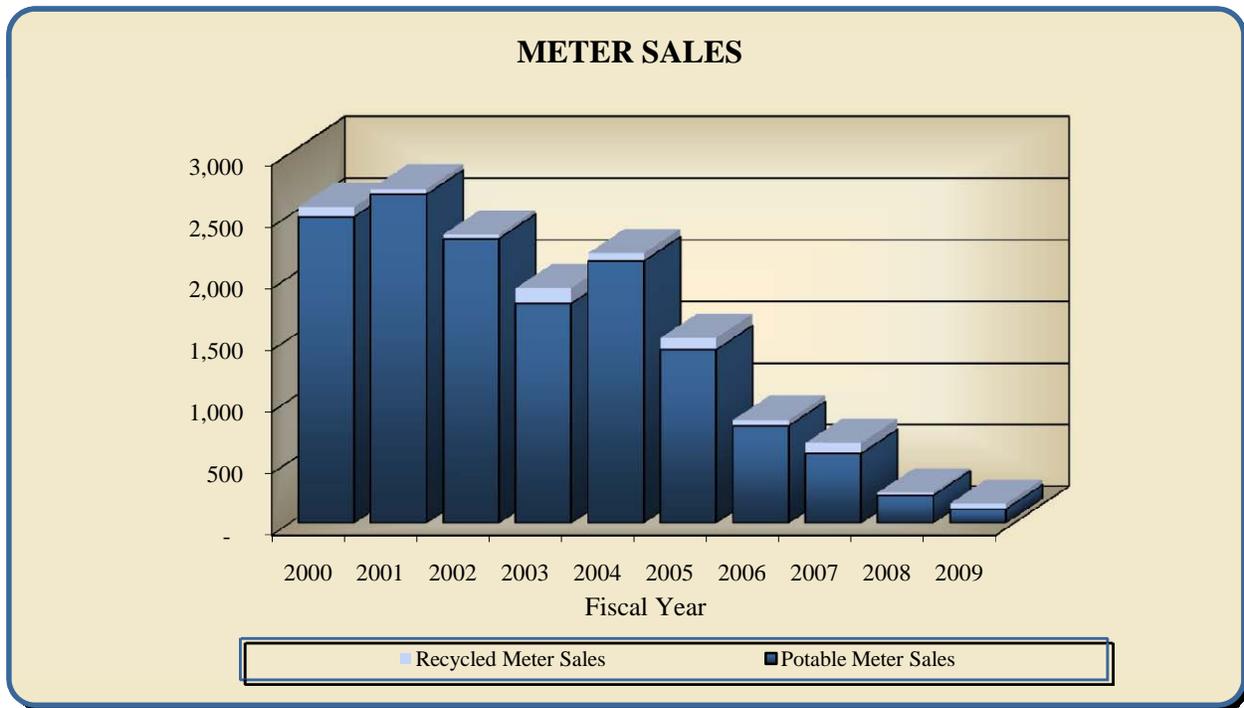
(2) The District entered into an agreement with the City of San Diego and began purchasing recycled water from their South Bay Water Reclamation Plant in 2007.

Source: Otay Water District



## Meter Sales by Type Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Potable</u>	<u>Recycled</u>	<u>Total</u>
2009	113	44	157
2008	224	22	246
2007	563	85	648
2006	788	47	835
2005	1,406	95	1,501
2004	2,125	64	2,189
2003	1,782	123	1,905
2002	2,308	33	2,341
2001	2,667	43	2,710
2000	2,485	78	2,563

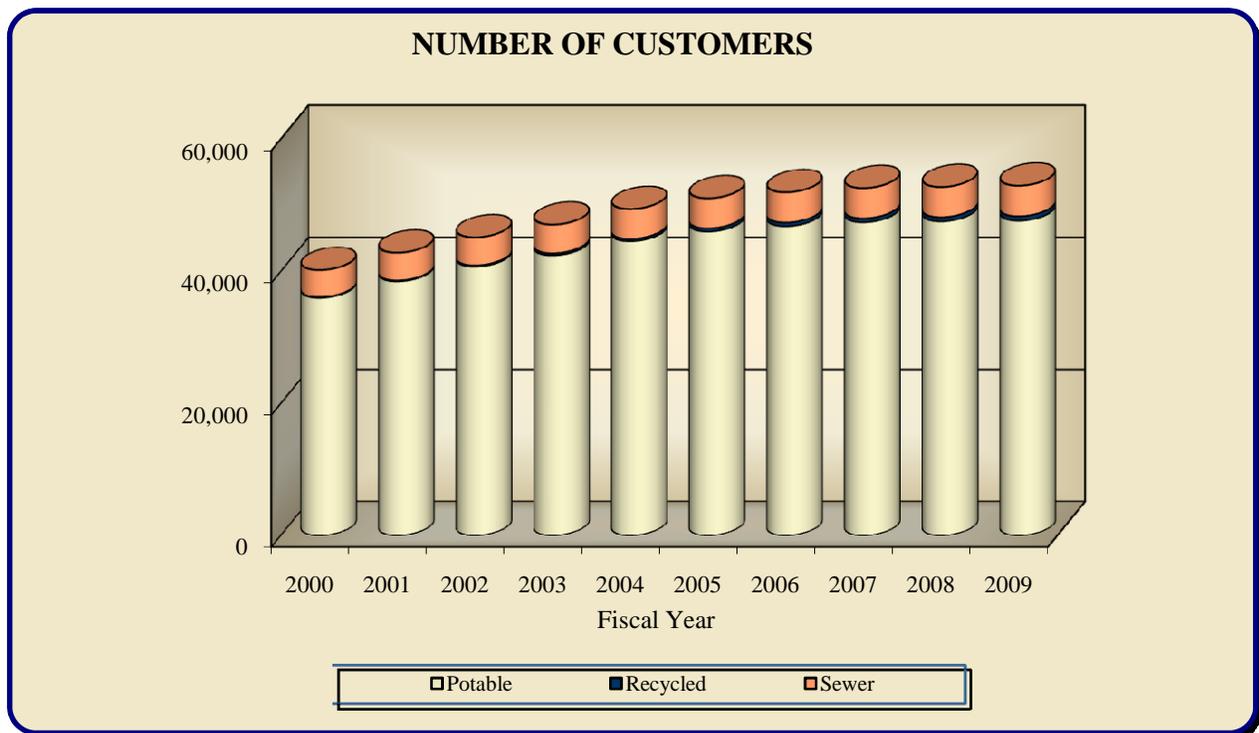


*Source: Otay Water District*



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

<u>Fiscal Year</u>	<u>Potable</u>	<u>Recycled</u>	<u>Sewer</u>	<u>Total</u>
2009	47,689	671	4,638	52,998
2008	47,591	626	4,627	52,844
2007	47,461	588	4,567	52,616
2006	46,851	558	4,571	51,980
2005	46,042	483	4,570	51,095
2004	44,583	348	4,548	49,479
2003	42,438	312	4,510	47,260
2002	40,732	189	4,342	45,263
2001	38,502	128	4,240	42,870
2000	36,005	106	4,199	40,310

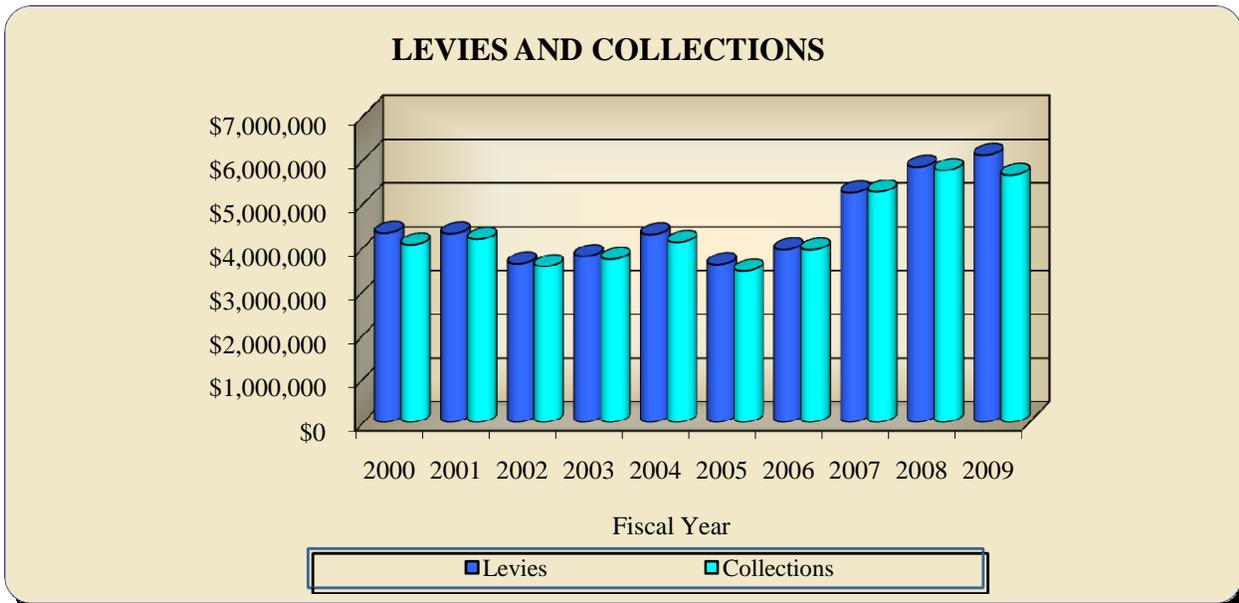


Source: Otay Water District



## Property Tax Levies and Collections Last Ten Fiscal Years

Fiscal Year	LEVIES (1)			Total Collections (1)	Net Receivable	Percent Collected
	1% Property Tax	Special Assessments	Total Levies			
2009	3,490,148	2,606,993	6,097,142	5,643,544	453,598	93%
2008	3,202,880	2,627,518	5,830,398	5,754,836	75,563	99%
2007	2,775,882	2,465,497	5,241,379	5,263,367	(21,988)	100%
2006	1,420,049	2,519,927	3,939,976	3,935,983	3,993	100%
2005	1,173,319	2,430,267	3,603,586	3,455,852	147,734	96%
2004	1,844,604	2,442,356	4,286,961	4,108,581	178,380	96%
2003	1,541,362	2,246,865	3,788,227	3,721,776	66,451	98%
2002	1,314,354	2,305,191	3,619,545	3,558,105	61,440	98%
2001	1,134,675	3,171,206	4,305,882	4,176,331	129,551	97%
2000	997,055	3,321,696	4,318,751	4,053,482	265,269	94%



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

Source: Otay Water District



## Water and Sewer Fixed Rates Last Ten Fiscal Years

<i>Base Rate (Meter Size)</i>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b><u>Residential</u></b>										
3/4"	\$ 13.83	\$ 12.30	\$ 11.30	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25
1"	17.56	19.80	18.15	16.50	16.50	16.50	16.50	16.50	16.50	16.50
1.5"	26.90	51.95	35.75	32.50	32.50	32.50	32.50	32.50	32.50	32.50
<b><u>Non-Residential &amp; Others</u></b>										
3/4"	13.83	24.00	22.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
1"	17.56	36.95	33.90	30.80	30.80	30.80	30.80	30.80	30.80	30.80
1.5"	26.90	51.95	47.50	43.30	43.30	43.30	43.30	43.30	43.30	43.30
2"	38.10	64.95	59.60	54.20	54.20	54.20	54.20	54.20	54.20	54.20
3"	67.98	104.55	95.90	87.20	87.20	87.20	87.20	87.20	87.20	87.20
4"	101.59	119.70	109.80	99.80	99.80	99.80	99.80	99.80	99.80	99.80
6"	194.96	239.20	219.45	199.50	199.50	199.50	199.50	199.50	199.50	199.50
8"	307.00									
10"	437.71	456.60	418.90	380.50	380.50	380.50	380.50	380.50	380.50	380.50
<b><u>Fire Services</u></b>										
<i>All Types</i>	28.55	25.40	23.30	21.20	21.20	21.20	21.20	21.20	21.20	21.20
<b>Usage Rate</b>										
<i>Residential:</i>										
Tier 1 (1-5)	\$ 1.12	\$ 1.12	\$ 1.08	\$ 1.05	\$ 1.01	\$ 1.01	\$ 1.01	\$ 1.01	\$ 1.01	\$ 1.01
Tier 2 (6-10)	1.74	1.85	1.78	1.73	1.67	1.67	1.67	1.67	1.67	1.67
Tier 3 (11-35)	2.26	2.01	1.94	1.88	1.81	1.81	1.81	1.81	1.81	1.81
Tier 4 (36+)	3.48	2.94	2.83	2.75	2.65	2.13	2.13	2.13	2.13	2.13
Tier 5 (51+) (1)	-	-	-	-	-	2.65	2.65	2.65	2.65	2.65
<i>Master Meter:</i>										
Tier 1 (1-5)	1.72	1.85	1.78	1.73	1.67	1.78	1.78	1.78	1.78	1.78
Tier 2 (6-25)	2.23	2.01	1.94	1.88	1.81	-	-	-	-	-
Tier 3 (16+)	3.43	2.94	2.83	2.75	2.65	-	-	-	-	-
<i>Publicly-Owned</i>	-	2.06	1.99	1.93	1.86	1.86	1.86	1.86	1.86	1.86
<i>Commercial &amp; Others (2)</i>	-	1.98	1.91	1.85	1.78	1.78	1.78	1.78	1.78	1.78
<i>Public Agency &amp; Commercial (3)</i>										
Tier 1	1.84	-	-	-	-	-	-	-	-	-
Tier 2	1.88	-	-	-	-	-	-	-	-	-
Tier 3	1.91	-	-	-	-	-	-	-	-	-
<i>Landscape, Agricultural &amp; Construction (3)</i>										
Tier 1	2.50	-	-	-	-	-	-	-	-	-
Tier 2	2.55	-	-	-	-	-	-	-	-	-
Tier 3	2.60	-	-	-	-	-	-	-	-	-
<i>Recycled (Commercial)</i>	-	\$ 1.67	\$ 1.65	\$ 1.57	\$ 1.51	\$ 1.51	\$ 1.51	\$ 1.51	\$ 1.51	\$ 1.51
<i>Recycled (Publicly-Owned)</i>	-	1.75	1.73	1.65	1.59	1.59	1.59	1.59	1.59	1.59
<i>Recycled (3)</i>										
Tier 1	2.13	-	-	-	-	-	-	-	-	-
Tier 2	2.17	-	-	-	-	-	-	-	-	-
Tier 3	2.21	-	-	-	-	-	-	-	-	-
<b>Sewer Rates</b>	<b>\$ 34.79</b>	<b>\$ 33.26</b>	<b>\$ 32.70</b>	<b>\$ 30.90</b>	<b>\$ 26.90</b>	<b>\$ 23.35</b>	<b>\$ 20.95</b>	<b>\$ 20.95</b>	<b>\$ 20.95</b>	<b>\$ 20.95</b>

**Note:** Above rates do not include Infrastructure Access Charge, a pass-through charge from CWA and MWD.

- (1) Effective January 2005, Tier 5 has been eliminated and replaced by Tier 4 (36+).
- (2) Others include landscaping, agricultural, and temporary meters. Agricultural customers under Interim Agricultural Water Program (IAWP) shall receive a \$0.33 discount per hundred cubic feet (HCF)
- (3) Effective January 2009, with the new rate structure, Public Agency & Commercial rates were combined as well as the recycled Commercial & Publicly owned (see next page for details).

**Source:** Otay Water District



# Water and Sewer Rates Last Ten Fiscal Years

## Fiscal Year 2009

### *Public Agency & Commercial*

<i>Less than 10" Meters</i>		<i>10" Meters &amp; above</i>	
Tier 1 (1-101)	\$ 1.84	Tier 1 (1-7,965)	\$ 1.84
Tier 2 (102-720)	1.88	Tier 2 (7,966-21,761)	1.88
Tier 3 (721+)	1.91	Tier 3 (21,762+)	1.91

### *Landscape, Agricultural & Construction*

<i>Landscape, Agricultural &amp; Construction 3/4" to 1" Meters</i>		<i>Landscape, Agricultural &amp; Construction 3" + Meters</i>	
Tier 1 (1-47)	\$ 2.50	Tier 1 (1-651)	\$ 2.50
Tier 2 (48-164)	2.55	Tier 2 (652-4,064)	2.55
Tier 3 (165+)	2.60	Tier 3 (4,065+)	2.60

### *Landscape, Agricultural & Construction 1.5" to 2" Meters*

Tier 1 (1-136)	\$ 2.50
Tier 2 (137-415)	2.55
Tier 3 (416+)	2.60

### *Recycled*

<i>Recycled 3/4" to 1" Meters</i>		<i>Recycled 1.5" to 2" Meters</i>	
Tier 1 (1-45)	\$ 2.13	Tier 1 (1-159)	\$ 2.13
Tier 2 (46-136)	2.17	Tier 2 (160-465)	2.17
Tier 3 (137+)	2.21	Tier 3 (466+)	2.21

<i>Recycled 3" to 4" Meters</i>		<i>Recycled 3" to 4" Meters</i>	
Tier 1 (1-400)	\$ 2.13	Tier 1 (1-7,955)	\$ 2.13
Tier 2 (401-1,005)	2.17	Tier 2 (7,956-17,550)	2.17
Tier 3 (1,006+)	2.21	Tier 3 (17,551+)	2.21

*Source: Otay Water District*



## Ten Largest Customers Current Year and Nine Years Ago

### FISCAL YEAR 2009

Customer Name	Business Type	Annual Revenues	% of Water Sales
1. City Of Chula Vista	Publicly Owned	\$ 2,083,668	4.0%
2. Otay River Const/Southbay Expressway	Construction (Potable, Temporary)	1,044,277	2.0%
3. County Of San Diego	Publicly Owned	1,023,342	2.0%
4. State Of California	Publicly Owned	864,858	1.6%
5. Eastlake III Community Assoc	Construction (Potable, Temporary)	539,324	1.0%
6. Sweetwater School District	Publicly Owned	477,150	0.9%
7. Eastlake Country Club	Irrigation (Reclaimed, Permanent)	458,259	0.9%
8. Steele Canyon	Irrigation (Potable, Permanent)	370,516	0.7%
9. Salt Creek Partners LLC	Irrigation (Reclaimed, Permanent)	357,528	0.7%
10. Chula Vista School District	Publicly Owned	329,847	0.6%
Total (10 Largest)		\$ 7,548,770	14.4%
Other Customers		\$ 44,879,878	85.6%
Total Water Sales		\$ 52,428,648	100.0%

### FISCAL YEAR 2004 (1)

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

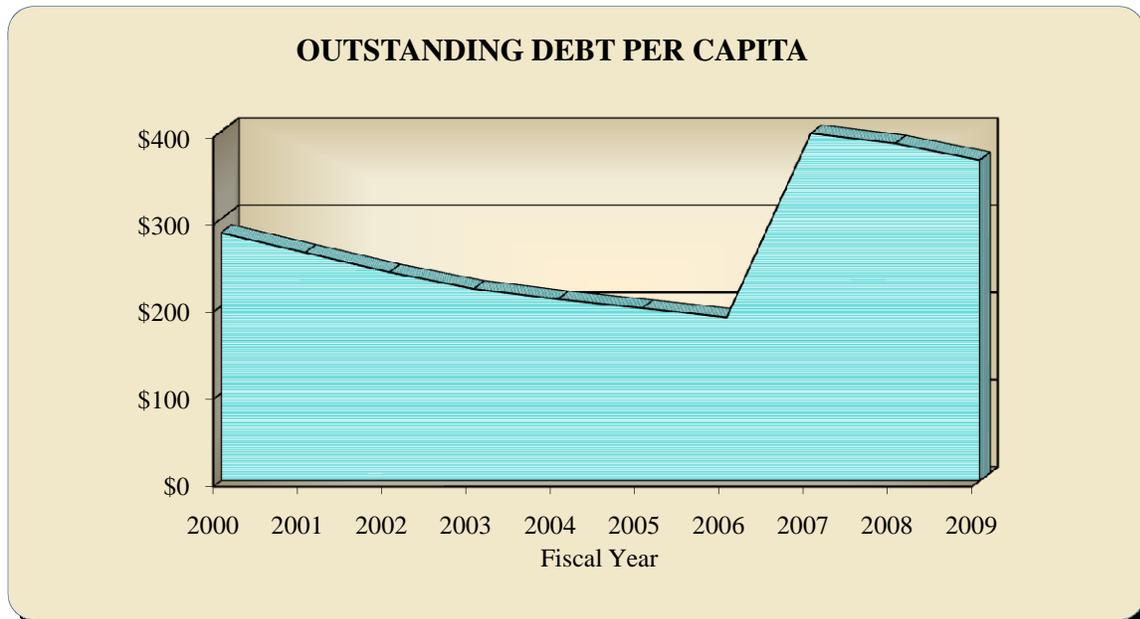
(1) Because the District did not begin tracking its ten largest customers until Fiscal Year 2004, data for nine years ago is not available. Accordingly, the current fiscal year and Fiscal Year 2004 are presented.

Source: Otay Water District



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

Fiscal Year	Population Estimate	GO Bond	COPS	Notes	Capital Leases	Total	Per Capita	As a Share of Personal Income (1)
2009	195,000	\$ 7,726,575	\$63,213,693	701,516	-	\$71,641,784	367.39	0.80%
2008	191,500	8,093,302	64,892,774	1,031,730	-	74,017,806	386.52	0.85%
2007	190,000	8,445,029	65,851,790	1,350,778	-	75,647,597	398.15	0.89%
2006	189,000	8,776,755	24,909,352	1,659,037	51,589	35,396,733	187.28	0.44%
2005	186,000	9,093,482	25,653,607	1,956,871	100,666	36,804,626	197.87	0.49%
2004	180,000	9,395,209	25,666,312	2,244,633	147,343	37,453,497	208.07	0.54%
2003	176,000	9,681,937	26,298,239	2,522,665	191,742	38,694,583	219.86	0.62%
2002	166,000	9,953,664	26,915,166	2,791,295	-	39,660,125	238.92	0.69%
2001	156,000	10,210,392	27,517,093	3,050,841	-	40,778,326	261.40	0.77%
2000	147,000	10,452,118	28,004,021	3,301,610	-	41,757,749	284.07	0.87%



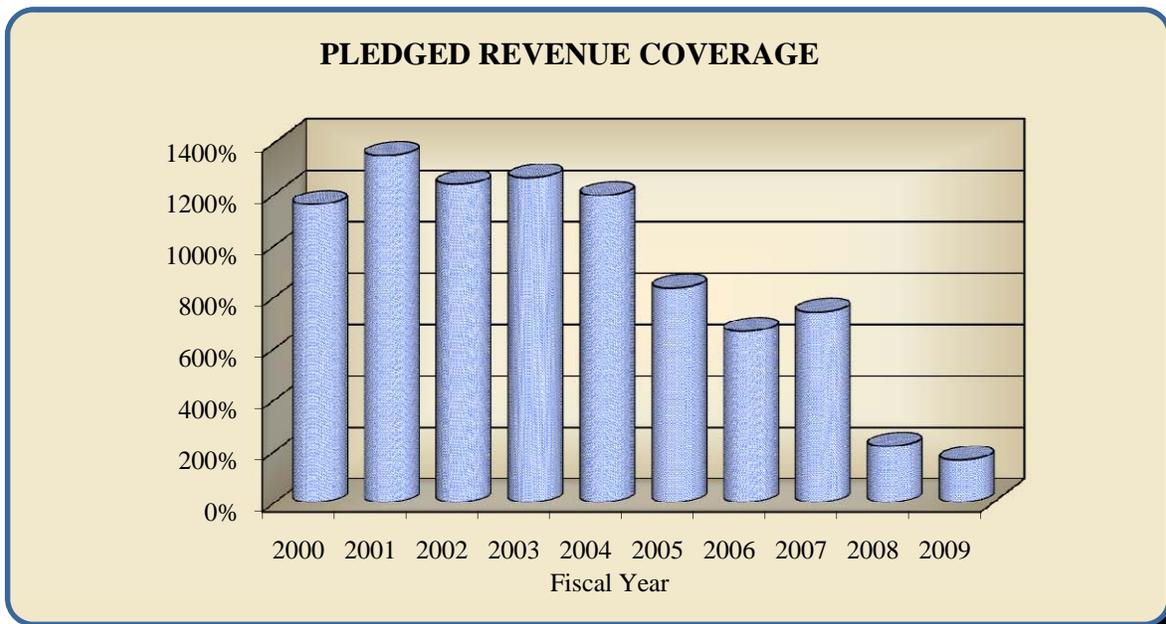
(1) See the Demographics and Economic Statistics schedule on page 71 for personal income data. Because per capita personal income data was not available for 2009 the percentages for 2009 were calculated using per capita personal income for 2008.

*Source: Otay Water District*



## Pledged Revenue Coverage Last Ten Fiscal Years

Fiscal Year	Adjusted Revenue (1)	Adjusted Operating Expense (2)	Net Revenue Available for Debt Service	(4) Debt Service Requirements			Coverage Factor (3)
				Principal	Interest	Total	
2009	\$ 63,739,773	\$ 57,076,567	6,663,207	\$1,700,000	\$2,342,048	4,042,048	165%
2008	63,732,275	56,420,286	7,311,989	800,000	2,567,884	3,367,884	217%
2007	69,442,301	52,413,282	17,029,019	790,000	1,513,834	2,303,834	739%
2006	58,572,428	47,520,682	11,051,746	745,000	917,790	1,662,790	665%
2005	56,597,040	43,936,109	12,660,931	650,000	869,715	1,519,715	833%
2004	57,195,289	38,980,975	18,214,314	635,000	891,796	1,526,796	1,193%
2003	53,077,164	33,787,868	19,289,296	620,000	908,416	1,528,416	1,262%
2002	51,604,999	31,904,402	19,700,597	605,000	987,467	1,592,467	1,237%
2001	51,547,298	29,012,779	22,534,519	490,000	1,181,032	1,671,032	1,349%
2000	46,922,341	26,861,461	20,060,880	480,000	1,252,054	1,732,054	1,158%



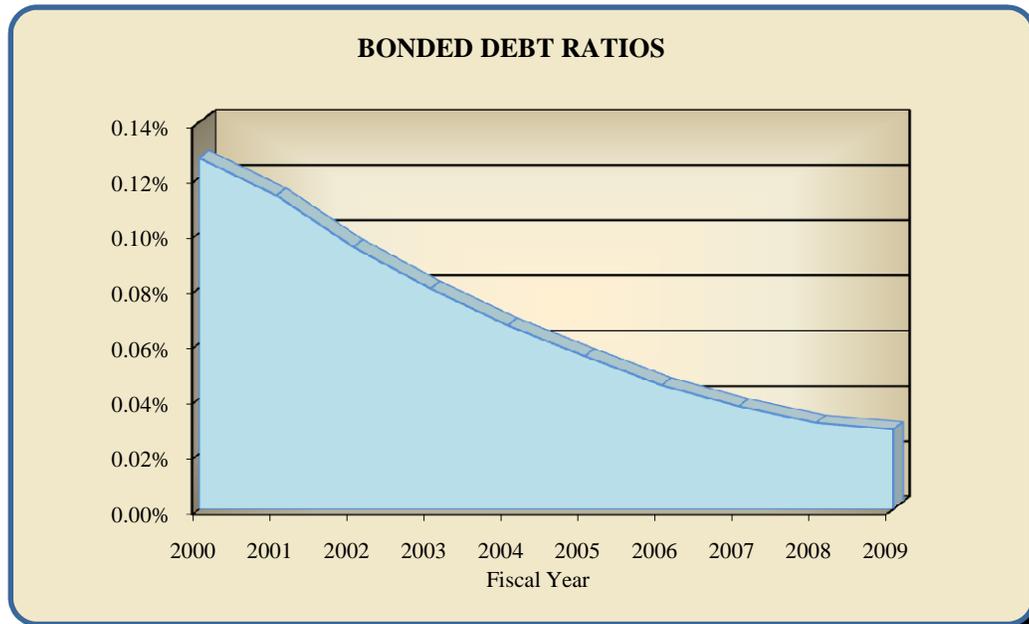
- (1) Adjusted revenues exclude sewer revenues and taxes collected for Improvement District 27 and are inclusive of capacity fees.
- (2) Adjusted operating expenses exclude sewer expenses and depreciation expense.
- (3) The District's bond covenants require a minimum coverage factor of 120%.
- (4) Pledge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

Source : Otay Water District



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

<b>Fiscal Year</b>	<b>Population Estimate</b>	<b>Assessed Valuation</b>	<b>Net Bonded Debt</b>	<b>Net Bonded Debt to Assessed Valuation</b>	<b>Net Bonded Debt Per Capita</b>
2009	195,000	\$ 26,752,095,692	\$7,726,575	0.03%	39.62
2008	191,500	25,902,796,201	8,093,302	0.03%	42.26
2007	190,000	22,684,693,592	8,449,025	0.04%	44.47
2006	189,000	19,565,665,464	8,776,755	0.04%	46.44
2005	186,000	16,423,403,701	9,093,482	0.06%	48.89
2004	180,000	14,130,544,067	9,395,209	0.07%	52.20
2003	176,000	12,129,664,151	9,681,937	0.08%	55.01
2002	166,000	10,489,919,430	9,953,664	0.09%	59.96
2001	156,000	8,991,319,915	10,210,392	0.11%	65.45
2000	147,000	8,223,932,352	10,452,118	0.13%	71.10



*Source: Otay Water District*



# Computation of Direct and Overlapping Bonded Debt

## June 30, 2009

2008-09 Assessed Valuation:	\$ 26,752,095,692
Redevelopment Incremental Valuation:	269,718,571
Adjusted Assessed Valuation:	\$ 26,482,377,121

**OVERLAPPING TAX AND ASSESSMENT DEBT:**

	Total Debt 6/30/2009	% Applicable (1)	District's Share of Debt 6/30/09
Metropolitan Water District	\$ 293,425,000	1.433%	\$ 4,204,780
<b>Otay Municipal Water District Improvement District No. 27</b>	<b>8,395,000</b>	<b>100.000</b>	<b>8,395,000</b>
Grossmont-Cuyamaca Community College District	201,618,898	13.266	34,811,519
Southwestern Community College District	84,254,962	48.183	40,596,568
Grossmont Union High School District	312,910,000	17.823	55,769,949
Sweetwater Union High School District	347,829,415	56.402	196,182,747
Chula Vista City School District	81,050,000	65.891	53,404,656
San Ysidro School District	88,702,104	53.932	47,838,819
Other School Districts	2,327,877,505	Various	40,529,014
City of San Diego	6,315,000	1.091	68,897
Grossmont Healthcare District	85,627,074	15.739	13,476,845
City of Chula Vista Community Facilities District	240,100,000	100	240,100,000
Chula Vista City School District Community Facilities Districts	6,790,000	100	6,790,000
Sweetwater Union High School District Community Facilities Districts	198,030,108	2.523-100	183,822,710
City 1915 Act Bonds (Estimate)	62,221,323	37.539-100	51,641,235
California Statewide Communities Development Authority			
San Diego County/ Venture Community Center Assessment District	1,131,727	100	1,131,772
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$ 978,764,511</b>

**DIRECT AND OVERLAPPING GENERAL FUND DEBT:**

San Diego County General Fund Obligations	\$ 462,405,000	7.412%	\$ 34,273,459
San Diego County Pension Obligations	986,677,916	7.412	73,132,567
San Diego Superintendent of Schools Certificates of Participation	16,395,000	7.412	1,215,197
<b>Otay Water District Certificates of Participation</b>	<b>63,635,000</b>	<b>100.000</b>	<b>63,635,000</b>
Grossmont and Southwestern Community College District General Fund Obligations	3,595,000	17.266 & 48.183	1,146,302
Grossmont Union High School District Certificates of Participation	1,470,000	17.823	261,998
Sweetwater Union High School District Certificates of Participation	12,810,000	56.402	7,225,096
Chula Vista City School District Certificates of Participation	128,975,000	65.891	84,982,917
San Ysidro School District Certificates of Participation	37,455,000	53.932	20,200,231
Other School District Certificates of Participation	17,490,000	Various	4,607,033
City of Chula Vista Certificates of Participation	130,580,000	74.306	97,028,775
City of Chula Vista Pension Obligations	7,000,000	74.306	5,201,420
City of San Diego General Fund Obligations	434,290,000	1.091	4,738,104
San Miguel Consolidated Fire Protection District Certificates of Participation	7,565,000	56.700	4,289,355
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$ 401,937,454</b>
Less: <b>Otay Water District Certificates of Participation (self-supporting)</b>			<b>63,635,000</b>
Sweetwater Union High School District supported by investment fund Qualified Zone Academy Bonds			2,820,100
San Ysidro School District supported by investment fund Qualified Zone Academy Bonds			2,696,600
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>			<b>\$ 332,785,754</b>
GROSS COMBINED TOTAL DEBT (2)			\$ 1,380,701,955
NET COMBINED TOTAL DEBT			\$ 1,311,550,265

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the district.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2008-09 Assessed Valuation:

Total Gross Overlapping Tax and Assessment Debt 3.66%

Ratios to Adjusted Assessed Valuation:

**Gross Combined Direct Debt (\$63,635,000) 0.24%**  
**Net Combined Direct Debt 0.00%**  
 Gross Combined Total Debt 5.21%  
 Net Combined Total Debt 4.95%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: \$0

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



## Principal Employers Current Year and Nine Years Ago

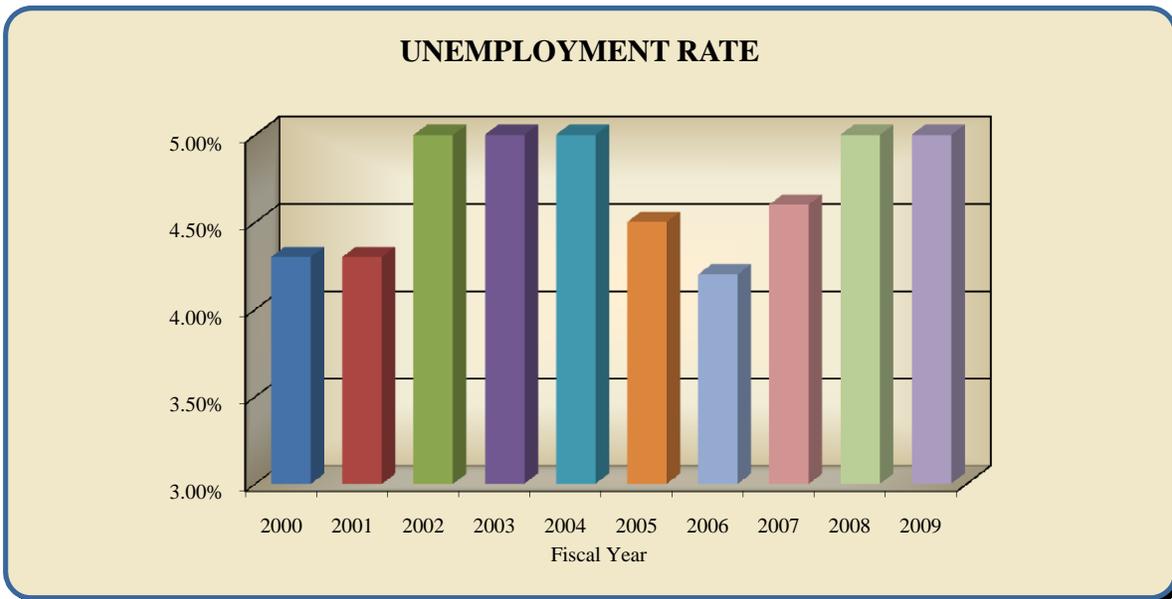
<u>Employer</u>	<u>2009</u>			<u>2000</u>		
	<u>Employees</u>	<u>Rank</u>	<u>% of Total County Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>% of Total County Employment</u>
Federal Government	41,600	1	2.94%	42,900	1	3.26%
State of California	41,600	2	2.94%	35,800	2	2.72%
University of California, San Diego	29,337	3	2.07%	21,817	3	1.66%
County of San Diego	16,505	4	1.17%	17,900	4	1.36%
San Diego Unified School District	14,555	5	1.03%	12,784	5	0.97%
Sharp Healthcare	14,400	6	1.02%	10,780	7	0.82%
Scripps Health	12,622	7	0.89%	7,950	11	0.60%
City of San Diego	11,087	8	0.78%	11,500	6	0.87%
Qualcomm, Inc.	9,859	9	0.70%	7,000	9	0.53%
Kaiser Permanente	7,618	10	0.54%	-	-	
United States Postal Service	5,787	-	0.41%	7,011	8	0.53%
Total	204,970		14.49%	175,442		13.34%

*Source: California Labor Market Info, County of San Diego, and San Diego Business Journal*



## Demographic and Economic Statistics Last Ten Fiscal Years

Year	Population	Personal Income (in 000'S)	Per Capita Personal Income	Unemployment Rate
2009	3,173,407	n/a (1)	n/a (1)	10.20%
2008	3,001,072	143,783,000	45,728	6.00%
2007	2,959,734	131,499,657	44,830	4.60%
2006	2,948,362	126,193,721	42,801	4.20%
2005	2,941,658	118,792,540	40,383	4.50%
2004	2,938,822	113,003,044	38,452	5.10%
2003	2,932,802	104,630,453	35,676	5.70%
2002	2,908,091	100,655,726	34,612	5.30%
2001	2,870,023	97,009,480	33,801	4.30%
2000	2,825,752	92,654,006	32,789	4.30%



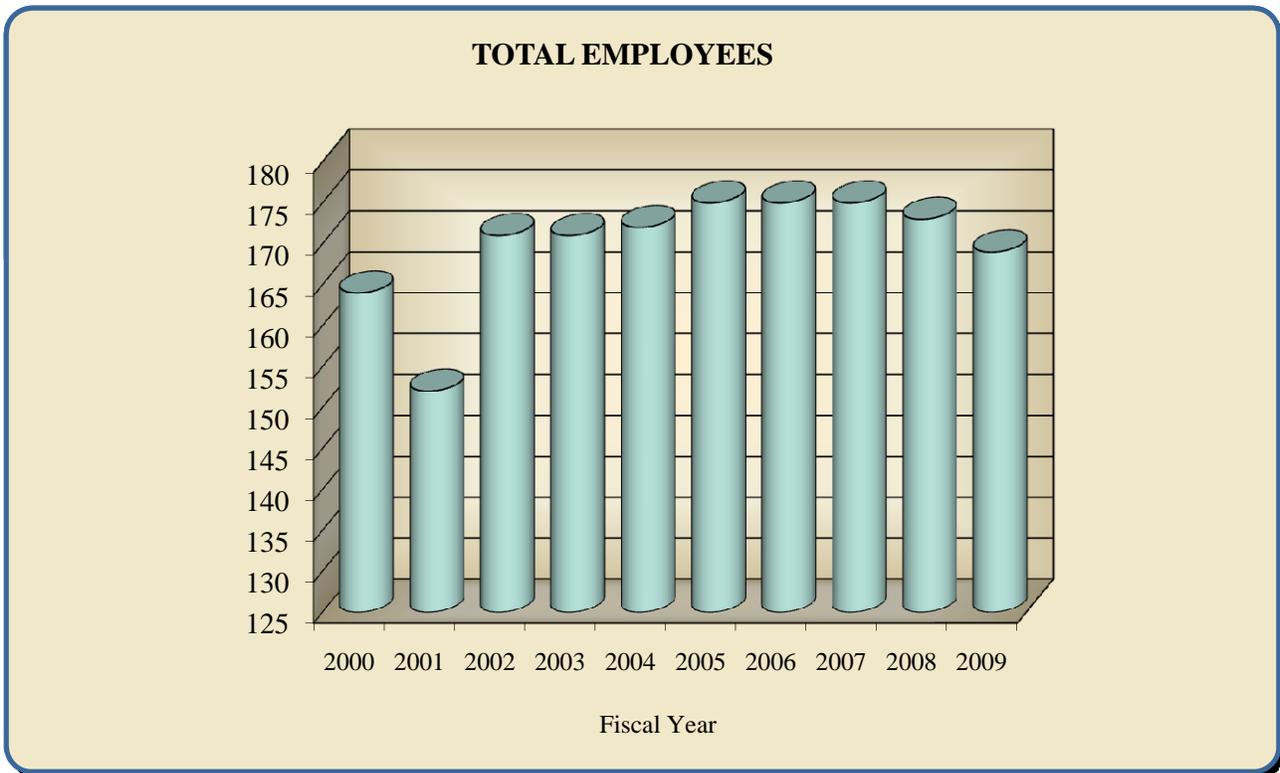
(1) Information for Fiscal Year 2009 was not available at the time of this report.

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



## Number of Employees by Function Last Ten Fiscal Years

<u>Department</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
General Manager	6	6	6	6	6	4	4	3	6	8
Finance	37	36	35	34	34	33	32	32	33	33
Operations/Maintenance	70	71	71	72	71	70	70	71	73	74
Engineering	23	27	31	15	13	33	31	24	27	32
Administrative Services	20	20	19	19	20	21	24	16	19	14
IT and Strategic Planning	13	13	13	12	11	10	10	6	6	7
Development Services (1)	-	-	-	17	17	-	-	-	-	-
Total	<u>169</u>	<u>173</u>	<u>175</u>	<u>175</u>	<u>172</u>	<u>171</u>	<u>171</u>	<u>152</u>	<u>164</u>	<u>168</u>



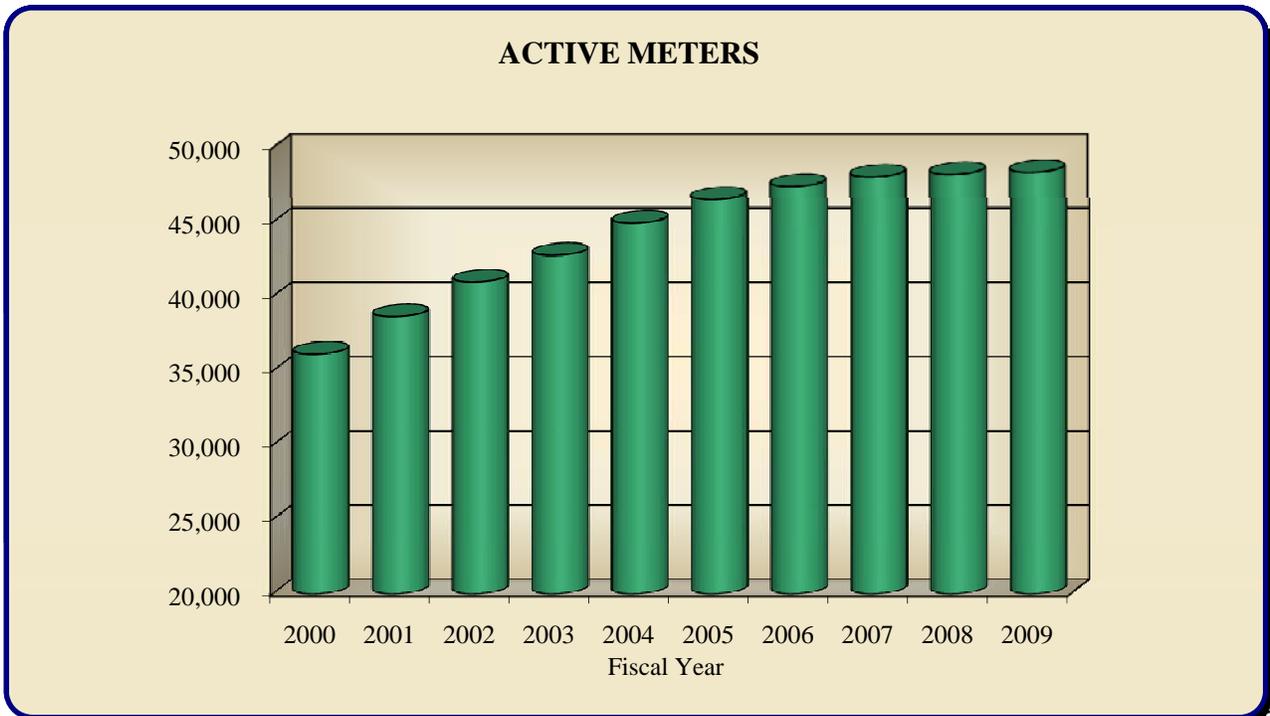
(1) Development Services was broken out from the Engineering and Planning Department in FY 2005 and then re-combined in FY 2007.

*Source : Otay Water District*



## Active Meters by Size Last Ten Fiscal Years

Meter Size	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
3/4"	43,641	43,551	43,544	43,070	42,420	41,069	39,138	37,178	35,014	32,672
1"	1,804	1,747	1,618	1,514	1,364	1,220	1,132	1,110	1,079	1,041
1-1/2"	1,309	1,275	1,242	1,199	1,147	1,037	918	889	837	806
2"	1,299	1,283	1,262	1,242	1,199	1,168	1,140	1,124	1,084	1,059
3"	75	76	76	69	67	66	61	57	50	43
4"	202	258	275	277	289	329	308	526	496	431
6"	21	19	24	27	27	27	27	40	35	34
Others	9	10	7	11	12	15	26	35	35	25
<b>Total</b>	<b>48,360</b>	<b>48,219</b>	<b>48,048</b>	<b>47,409</b>	<b>46,525</b>	<b>44,931</b>	<b>42,750</b>	<b>40,959</b>	<b>38,630</b>	<b>36,111</b>
% Change	0.3%	0.4%	1.3%	1.9%	3.5%	5.1%	4.4%	6.0%	7.0%	8.3%
Increase	141	171	639	884	1,594	2,181	1,791	2,329	2,519	2,766

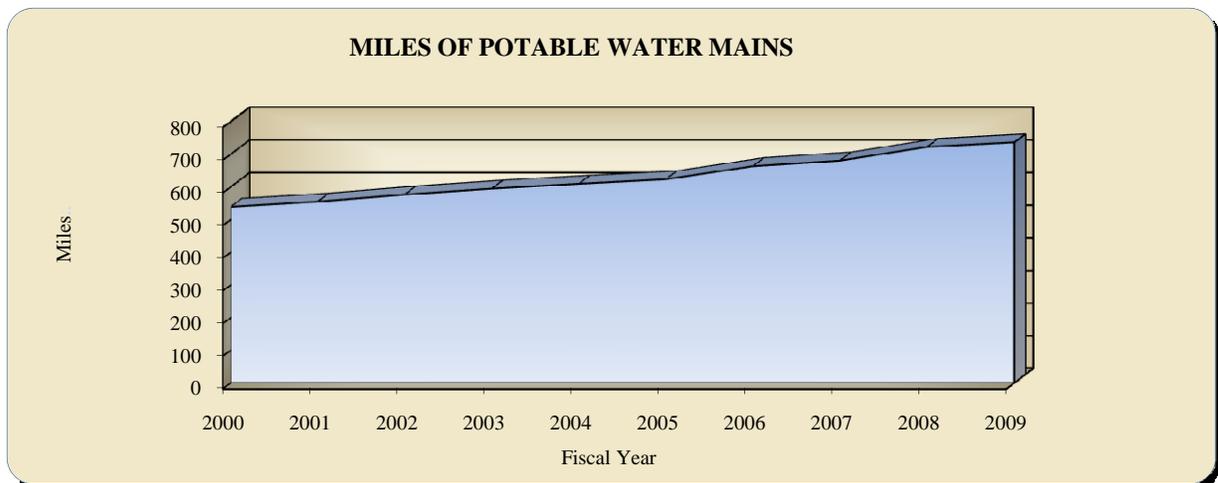


Source : Otay Water District



## Operating and Capital Indicators Last Ten Fiscal Years

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b><u>Water System</u></b>										
Service Area (Square Miles)	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5
Miles of Potable Water Main	736	722	680	663	623	609	594	576	554	539
Number of Operational Storage Reservoirs in Service	38	36	37	37	36	37	37	38	37	37
Water Storage Capacity (in Acre-Feet)	655.5	605.5	601.7	601.7	582.4	585.4	582.3	587.5	538.4	538.4
Total Water Connections (No. of Meters in Service)	48,522	48,376	47,615	47,409	46,525	44,931	42,750	40,959	38,630	36,111
Number of Pump Stations	24	24	24	22	21	21	21	21	20	20
Number of Potable Water Valves	19,192	19,131	18,721	18,042	17,696	16,204	15,830	15,073	14,296	13,519
<b><u>Sewer System</u></b>										
Miles of Sewer Lines	90.0	88.0	86.2	86.2	85.9	85.4	84.8	83.5	82.9	82.1
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 2009 (in Million Gallons)	483	503	514	528	506	479	463	455	452	442
<b><u>Recycled System</u></b>										
Miles of Recycled Water Mains	97.0	93.0	83.0	77.6	76.4	70.7	60.6	49.2	40.3	37.7
Number of Pumping Facilities	3	3	3	2	2	2	2	1	1	1
Number of Acre-Feet Storage	133.2	135.0	134.1	97.3	97.3	97.3	97.3	86.9	86.9	86.9
Number of Recycled Water Valves	1,338	1,314	1,245	1,189	1,155	1,097	948	730	588	542



Source : Otay Water District



**Otay Water District**  
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