OTAY WATER DISTRICT

Spring Valley, California

Comprehensive Annual Financial Report

for the year ended June 30, 2015

Otay Water District
Comprehensive Annual Financial Report
for the year ended June 30, 2015

BOARD OF DIRECTORS

Jose Lopez, Division 4	President
Mitchell Thompson, Division 2	Vice President
Mark Robak, Division 5	Treasurer
Tim Smith, Division 1	
Gary Croucher, Division 3	

DISTRICT FINANCIAL MANAGEMENT

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

PREPARED BY

Finance Department

Otay Water District, Spring Valley, California

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...Dedicated to Community Service
2554 SWEETWATER SPRINGS BOULEVARD, SPRING VALLEY, CALIFORNIA 91978-2004
TELEPHONE: 670-2222, AREA CODE 619

October 21, 2015

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, 2015.

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

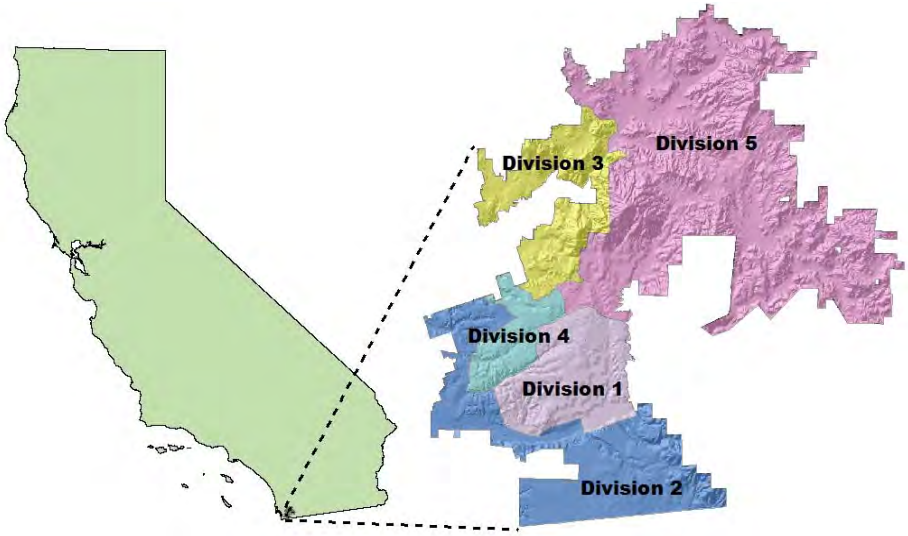
The District's financial statements have been audited by Teaman, Ramirez & Smith, Inc. a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2015, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. In the independent auditors' opinion, the following financial statements present fairly, in all material respects, the respective financial position of the Otay Water District as of June 30, 2015 and are presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

REPORTING ENTITY

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

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

Over the last 59 years, the District has grown from a handful of customers and two employees to become an organization operating a network of more than 919 miles of pipelines, 44 operational reservoirs, a recycled water facility, and one of the largest recycled water distribution networks in the State of California. The character of the service area has also changed from predominantly dry-land farming and cattle ranching, to businesses, high-tech industries, and large master-planned communities.



Today the District provides water service to approximately 49,257 potable and 710 recycled customers within 125.5 square miles of the southeastern San Diego metropolitan area. All of the potable water sold to customers is purchased through the San Diego County Water Authority (CWA). Much of this water is purchased from the region's water importer; the Metropolitan Water District of Southern California (MWD), and the Imperial Irrigation District. Beginning in November 2015, a new desalination plant in Carlsbad, California will begin

delivering water to the region. The District also has entered into an agreement to purchase treated water from CWA directly and from Helix Water District via contract with CWA. These actions have brought regional water treatment closer to our customers and helped reduce dependence on water treatment facilities located outside of San Diego County.

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

927-I Recycled Water Reservoir Cover and Liner Replacement

The District also owns and operates a wastewater collection and recycling system providing public sewer service to approximately 4,670 customer accounts within portions of the communities of La Mesa, Rancho San Diego, El Cajon, Jamul, and Spring Valley. Wastewater collected is conveyed to the District's Ralph W. Chapman Water Recycling Facility (RWCWRF), which is capable of recycling wastewater at a rate of 1.3 million gallons per day. The District also has the capability to purchase up to 6 million gallons per day of recycled water from the City of San Diego's South Bay Reclamation Plant. Recycled water from these two sources is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The use of recycled water reduces dependency on imported supplies and provides a local supply, thereby diversifying District resources.

MISSION, CURRENT ECONOMIC CONDITIONS, AND OUTLOOK

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

As with the past few years, we continue to face numerous challenges with the large economic slowdown; however, the District's Public Services Division has seen improvement in recent years approving an average of 12 permits per month and selling 139 water meters during fiscal 2014-2015. The District continues to face numerous challenges with the slow recovery from the largest economic downturn since the Great Depression and now with the severe drought the State of California is facing. Additionally, the region experienced large water supply cost increases totaling more than 90% since 2007. Finally, the inaction in the State Capitol to address the crisis in the

Sacramento – San Joaquin Bay Delta, the source of 30 percent of Southern California's water supply, adds further uncertainty to the future cost and availability of water. Fortunately, the District, as a member of the CWA, is well-positioned for water coming from the Colorado River due to the Quantification Settlement Agreements (QSA) and the development of the new desalination plant in Carlsbad, mentioned previously.

Growth in San Diego County has remained flat over the last four years, but is now expected to gradually improve. The population within the District's service area continues to increase, albeit at a reduced rate. As of July 2015, it is estimated that the District served 217,000 residents. The San Diego Association of Governments (SANDAG), the regional planning agency, has estimated the District's approximate growth will be 0.96% per year for the next decade. Using historical data and considering current economic conditions, staff has moderated this projection to a growth rate of 0.33% for FY 2016. The District projects an ultimate customer population of 308,000 residents.

STRATEGIC PLAN

The Strategic Plan is the core document which guides the District's efforts to meet and positively adapt to change. Every three years the District engages in a major revision of its Strategic Plan. The current plan (covering fiscal years 2016 – 2018) consists of a two-phased approach. Phase 1 has been completed with the primary focus on developing key enterprise-wide projects – SCADA, Work Order/Asset Management, and Emergency Preparedness/NIMS. We are now entering Phase 2 of the FY 2016-2018 Strategic Plan where the focus is to build upon the system foundation, business process improvement, and facilities. Where rapid growth had been a significant focus in the early years of the District and in its earlier strategic plans, today we are primarily focused on managing long-term maintenance and replacement of infrastructure.

The Strategic Plan is focused on the District's transformation from a growth-centric to a maintenance-based organization. Performance metrics and targets are a critical element of the Strategic Plan but differ from Strategic Plan objectives. Objectives identify the action items that are necessary to achieve the strategic vision. Performance metrics are designed to ensure the day-to-day operations of the utility are meeting agreed-upon expectations. Both performance metrics and objectives are revised from the prior year, updated quarterly, and reviewed by the Board on a semi-annual basis.

Our key District challenge is to add increased value by improving our core business processes. From a water supply perspective, this means determining the optimum mix of water supply, treatment, and delivery solutions for our customers. From a daily operating perspective, efficiency improvements have become the primary source of competitive advantage and cost optimization for utilities. Adding value from this perspective means the entire team focusing on not only the highest priority goals but also examining the details of what we do every day and be willing to alter

how we do it, if it makes a positive difference. Our employees voice a high degree of personal and professional satisfaction with our direction and the entire team is committed to meeting this key challenge with distinction.

BUDGETING CONTROLS

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

BUDGET SUMMARY

The Otay Water District's operating expenditures consist of three major sectors: potable water, recycled water, and sewer. The total budget is $89,236,000 for Fiscal Year 2016. Revenues from potable and recycled water are projected to be $78,899,700, about $1,886,000 (2.3%) lower than the Fiscal Year 2015 budget. Water sales volumes are expected to decrease by 7.95% versus FY 2015. This decrease in volume is primarily due to mandatory drought restrictions imposed by the State Water Resources Control Board. MWD and CWA water supply rate increased by 2.5% and 3.6%, respectively. CWA's increase is due to the high cost of supply programs, including the early delivery of Carlsbad desalination water. CWA also needs to secure a prudent financial position by achieving the rate stabilization fund targets and smoothing the water rates. Sewer revenues are projected to be $3,206,300, approximately $198,600 more than the Fiscal Year 2015. The remaining budgeted revenues of $7.1 million come from various special fees, assessments, and miscellaneous income.

624-2 Reservoir Exterior

The 2015-16 Capital Improvement Program (CIP) budget consists of 80 projects and a budget of $11.1 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth. This year's CIP budget increased by $.5 million compared to last year's budget. The increase is due to an increase in capital purchases for vehicles and the Air Pollution Control District (APCD) engine replacements and retrofits.

THE FUTURE

The coming years will continue to pose considerable challenges for those in California's water community. The state is facing its fourth straight year of a record drought and despite extensive local efforts to develop more reliable water, Governor Jerry Brown and the State Water Resources Control Board (SWRCB) have ordered mandatory cuts in potable water use across California and set a statewide conservation goal of 25 percent.

To reduce potable water use by 25 percent statewide, the regulations adopted by the SWRCB place each urban water supplier into one of eight tiers which are assigned a conservation standard ranging from 4 percent to 36 percent. Under the SWRCB order, customers of the Otay Water District must reduce water use by 20 percent over the next nine months. This order came despite Otay customers having reduced water use 27 percent since 2007. Each month, the SWRCB will compare every urban water suppliers' water use with their use for the same month in 2013 to determine if they are on track for meeting their conservation standard. Agencies that consistently fail to meet the conservation standard could be fined as much as $10,000 per day. The order was also imposed without regard to San Diego County having 99 percent of the water supply it needs to meet customer demand this year, despite four years of record drought. San Diego County, including Otay Water District customers by virtue of being a member of the San Diego County Water Authority (CWA), have expended more than $3.1 billion over the last decade to create a more reliable water supply network that has shielded customers from the most severe of the drought's impacts. Water supplies in the San Diego region will improve with the development of the western hemisphere's largest desalination plant in Carlsbad, California.

SAN DIEGO COUNTY WATER SUPPLY

San Diego County imports about 90 percent of its water from the Colorado River and Northern California. Since these sources face legal and environmental constraints, the region has been exploring other ways to ensure an adequate water supply, including increased water recycling, more aggressive conservation programs, increased water storage, groundwater desalination, and seawater desalination.

CARLSBAD DESALINATION PROJECT

The District's water wholesaler, the County Water Authority, voted on November 29, 2012 to approve a water purchase agreement with Poseidon Resources Corporation (Poseidon). Under the water purchase agreement, the County Water Authority will purchase 48,000 to 56,000 acre-feet of water annually from the desalination plant located in Carlsbad, California. The plant will generate enough water to serve about 112,000 families and meet 7 to 10 percent of the region's demand. The total price for the desalinated water, including related upgrades to the County Water Authority's pipelines and treatment plant, is projected to cost between $2,014 and $2,257 per acre-foot (in 2012 dollars). An acre-foot is approximately 325,900 gallons, or enough to supply two typical single-family households of four for a year.

Rosarito Desalination Project rendering

ROSARITO DESALINATION AND THE OTAY MESA CONVEYANCE AND DISINFECTION SYSTEM PROJECTS

The Rosarito Desalination Project is comprised of a 100 million gallons per day seawater reverse osmosis desalination plant, together with a pump station and pipeline, to convey water to Tijuana and to the District. This would be the first cross-border water supply project of its kind and requires public messaging to inform key stakeholders and the public of the significance of the Project. If successful, this Project will start delivering water to the District customers by early 2020. The Project includes the construction of facilities on the U.S. side to include a large diameter pipeline 3.5 miles long, a pump station, a disinfection facility and the use of the Roll Reservoir in Otay Mesa.

ACCOUNTING SYSTEM

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

INTERNAL CONTROLS

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

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

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to Otay Water District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014. This was the eleventh consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

The Government Finance Officers Association of the United States and Canada (GFOA) presented a *Distinguished Budget Presentation Award* to Otay Water District, for its annual budget for the fiscal year beginning July 1, 2015. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

The Government Finance Officers Association of the United States and Canada (GFOA) also presented a *Special Capital Recognition* for the Fiscal Year 2014-2015 Budget.

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Operating Budgeting for Fiscal Year 2014-2015.*

The California Society of Municipal Finance Officers (CSMFO) presented Otay Water District the Certificate of Award for *Excellence in Capital Budgeting for Fiscal Year 2014-2015.*

Otay Water District has received the *Distinguished Owner Honoree Award* from the Construction Management Association of America (CMAA).

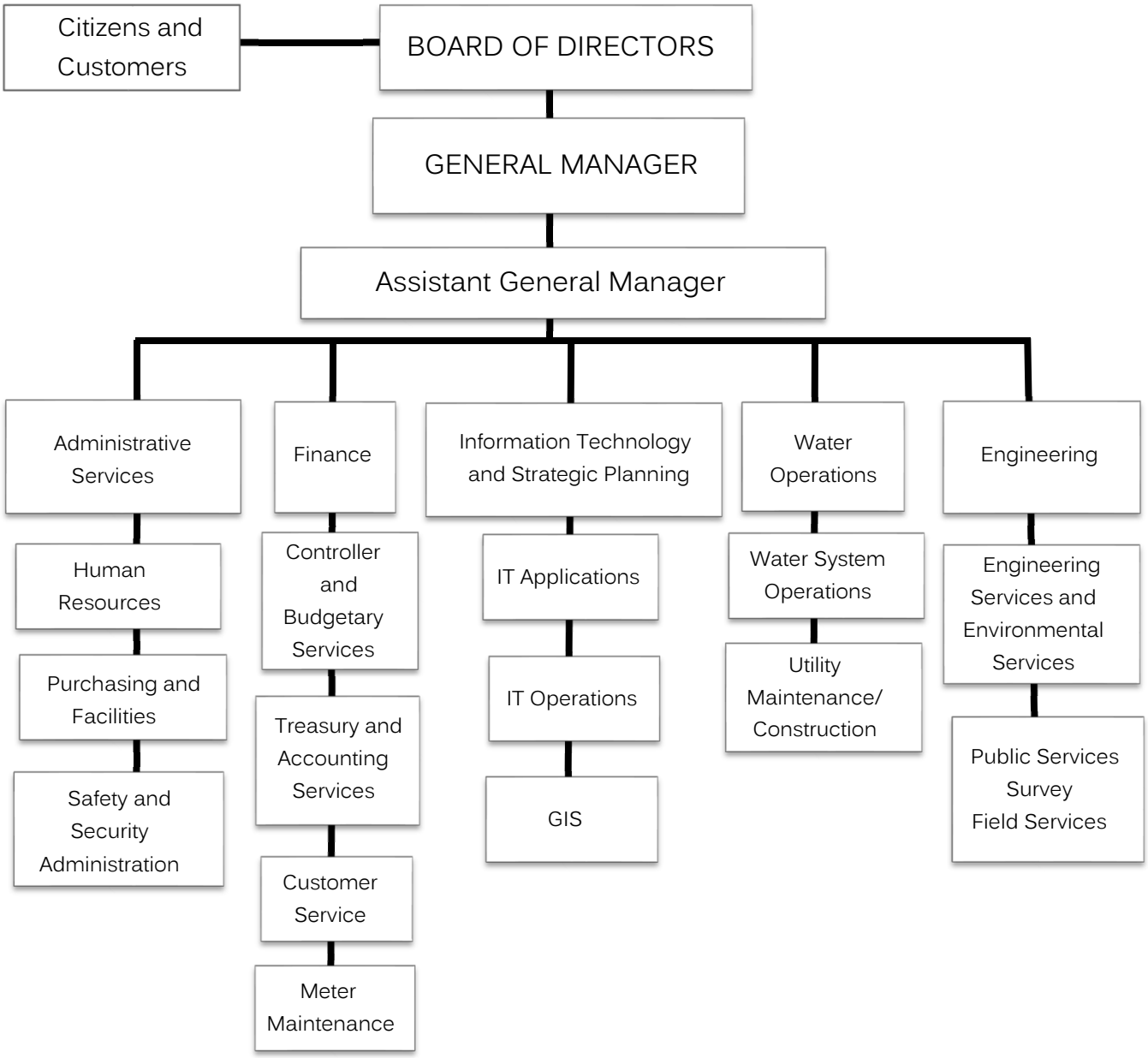
I would like to thank all of the staff involved for their efforts in preparing this Comprehensive Annual Financial Report and for their hard work to ensure a successful outcome. I would also like to thank the firm of Teaman, Ramirez & Smith, Inc., for their professional work and opinion.

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

Joseph R. Beachem
Chief Financial Officer

Mark Watton
General Manager

Organization Chart



List of Principal Officials

Jose Lopez
President
Division 4

Mitchell Thompson
Vice President
Division 2

Mark Robak
Treasurer
Division 5

Tim Smith
Division 1

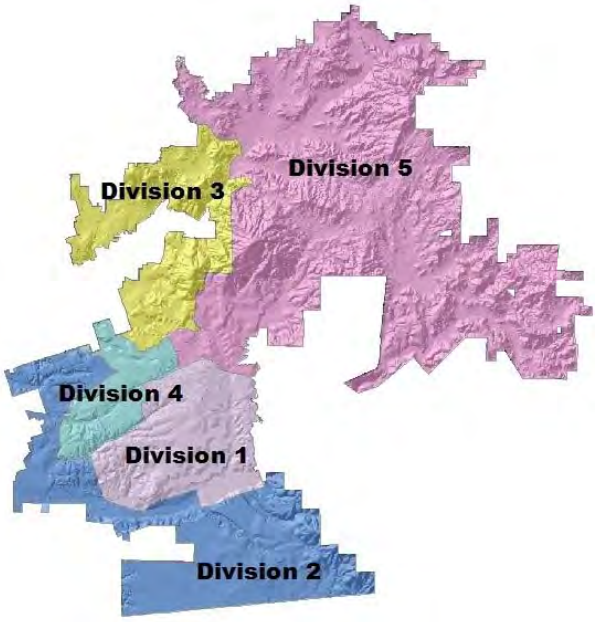
Gary Croucher
Division 3

Board of Directors

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

Mission Statement

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



GFOA CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Otay Water District for its CAFR for the fiscal year ended June 30, 2014. This is the eleventh year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the District had to publish an easily readable and comprehensive report. This report must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Otay Water District
Spring Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Otay Water District (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Richard A. Teaman, CPA • David M. Ramirez, CPA • Javier H. Carrillo, CPA
4201 Brockton Ave. Suite 100, Riverside CA 92501 • 951.274.9500 • 951.274.7828 FAX • www.trscpas.com

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Otay Water District as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

Emphasis of Matter

As described in Note 13 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 16-23 and 62-64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Teaman Ramirez & Smith, Inc.

Riverside, California
October 21, 2015

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, 2015. 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 $402.4 million *(net position).* Of this amount, $43.7 million *(unrestricted net position)* may be used to meet the District's ongoing obligations to citizens and creditors.
- Total assets decreased by $7.7 million or 1.33% during Fiscal Year 2015, to $568.9 million, due primarily to depreciation offset by investments in capital infrastructure, contributions, and improved operating results.
- Net Position at July 1, 2014 was decreased by $40.4 million due to the implementation of Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71. The most significant impact of the implementation requires the presentation of Defined Benefit Pension Plan's $38.7 million Unfunded Actuarial Accrual as a liability on the Statement of Net Position.

Overview of the Financial Statements

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

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

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

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

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

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

Financial Analysis:

As noted, net position may serve, over time, as a useful indicator of an entity's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $402.4 million at the close of the most recent fiscal year.

By far, the largest portion of the District's net position, $354.0 million (88%), reflects its investment in capital assets, less any remaining outstanding debt used to acquire those assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported effectively as a resource, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statements of Net Position
(In Millions of Dollars)

	2015	2014	2013
Assets			
Current and Other Assets	$ 109.7	$ 109.9	$ 106.3
Capital Assets	459.2	466.7	476.0
Total Assets	568.9	576.6	582.3
Deferred Outflows of Resources			
Deferred Amount on Refunding	0.0	0.1	0.4
Deferred Contributions to Pension Plan	3.6	0.0	0.0
Total Deferred Outflows of Resources	3.6	0.1	0.4
Liabilities			
Long-Term Debt Outstanding	101.5	105.3	109.0
Net Pension Liability	38.7	0.0	0.0
Other Liabilities	24.9	26.6	25.5
Total Liabilities	165.1	131.9	134.5
Deferred Inflows of Resources			
Deferred Actuarial Pension Costs	5.0	0.0	0.0
Total Deferred Inflows of Resources	5.0	0.0	0.0
Net Position[1]			
Net Investment in Capital Assets	354.0	357.9	376.5
Restricted for Debt Service	4.7	3.9	4.6
Unrestricted	43.7	83.0	67.1
Total Net Position	$ 402.4	$ 444.8	$ 448.2

While the District's operations and population continue to grow, albeit at slower rates than the housing boom years, the pattern of reduced growth of the District's Net Position is indicative of the reduction and slow recover of new development projects within the District. This reduction is a result of the slow recovery from the national housing slump.

In FY 2015, the District's Capital Assets increased by $8.2 million before accumulated depreciation. (See Note 3 in the Notes to Financial Statements). The District also saw a decrease in Long-Term Debt of $3.8 million due to the annual payments of long-term debt (See Note 4 in the Notes to the Financial Statements).

[1]GASB No. 68 & 71 implemented in FY 2015. Prior years were not restated as the information was not readily available.

Certain planning and environmental study costs associated with capital projects such as the Otay Mesa Desalination and Disinfection System or San Miguel Habitat Management/Mitigation Area do not qualify as capital costs under Generally Accepted Accounting Principles and are included in the miscellaneous expenses of the District. For FY 2015 and FY 2014 those expenses were $1.2 million and $1.6 million, respectively.

At the end of FY 2015 the District is able to report positive balances in all categories of net position. This situation also held true for the prior two fiscal years.

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

	2015	2014	2013
Water Sales	$ 79.1	$ 81.3	$ 72.2
Wastewater Revenue	3.1	2.8	2.6
Connection and Other Fees	1.7	1.9	2.1
Non-operating Revenues	8.9	7.8	7.7
Total Revenues	92.8	93.8	84.6
Depreciation Expense	16.2	16.1	16.5
Other Operating Expense	75.7	76.5	70.8
Non-operating Expense	6.0	8.0	6.0
Total Expenses	97.9	100.6	93.3
Loss Before Capital Contributions	(5.1)	(6.8)	(8.7)
Capital Contributions	3.1	3.4	2.8
Change in Net Position	(2.0)	(3.4)	(3.1)
Beginning Net Position, As Previously Stated	444.8	448.2	454.1
Prior Period Adjustment	(40.4)	0.0	0.0
Beginning Net Position, As Restated	404.4	448.2	454.1
Ending Net Position	$ 402.4	$ 444.8	$ 448.2

Water Sales decreased by $2.2 million in FY 2015 and increased by $9.1 million in FY 2014. The year over year reduction was mainly due to decreases in units sold during FY 2015 as a result of the ongoing drought conditions. This reduction as a result of the drought was partially offset by increases in rates. The FY 2014 increase was a result of both increasing volume due to the economic recovery and rate increases.

Other Operating Expense decreased predominantly due to the decrease in Cost of Water Sales brought about by the decrease in units purchased in FY 2015.

The reduction in District growth, as a result of the economic slowdown, continues to impact the District as Connection and Other Fees revenues declined by $0.2 million in FY 2015 and in FY 2014. During the nationwide housing mortgage crisis, developers had either slowed down or totally stopped work on projects until economic conditions improve and the demand for growth returned. While the economy has improved, the demand and development that has returned has done so at a much slower rate. This has resulted in Capital Contributions remaining low over the last three years, compared to the extended growth of the previous 10 years.

Non-operating Revenues

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

	2015	2014	2013
Taxes and Assessments	$ 3.8	$ 3.5	$ 3.5
Rents and Leases	1.2	1.3	1.3
Other Non-operating Revenue	3.9	3.0	2.9
Total Non-operating Revenues	$ 8.9	$ 7.8	$ 7.7

The District's total non-operating revenues increased by $1.1 million in FY 2015 and by $0.1 million in FY 2014. The increase in FY 2015 was primarily a result of increased revenues from property taxes, availability fees, and investment earnings.

Capital Assets and Debt Administration

The District's capital assets (net of accumulated depreciation) as of June 30, 2015, totaled $459.2 million. Included in this amount is land. The District's net capital assets decreased by 1.6% for FY 2015 and 2.0% for FY 2014.

Capital Assets
(In Millions of Dollars)

	2015	2014	2013
Land	$ 13.7	$ 13.7	$ 13.7
Construction in Progress	15.1	11.7	17.1
Water System	468.7	465.9	458.8
Recycled Water System	110.5	110.3	108.9
Sewer System	42.0	41.2	41.2
Field Equipment	8.7	8.8	8.9
Buildings	19.0	18.9	18.8
Transportation Equipment	3.4	3.3	3.5
Communication Equipment	3.1	2.9	2.6
Office Equipment	18.2	17.5	17.3
	702.4	694.2	690.8
Less Accumulated Depreciation	(243.2)	(227.5)	(214.8)
Net Capital Assets	$ 459.2	$ 466.7	$ 476.0

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

At June 30, 2015, the District had $101.5 million in outstanding debt (net of $3.7 million of maturities occurring in FY 2016), which consisted of the following:

General Obligation Bonds	$ 4.7
Certificates of Participation	43.4
Revenue Bonds	53.4
Total Long-Term Debt	$ 101.5

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

Additional information on the District's long-term debt can be found in Note 4 of the Notes to Financial Statements

Prior Period Adjustment

The Governmental Accounting Standards Board (GASB) issued Statement No. 68, *"Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27", and No. 71 "Pension Transitions for Contributions Made Subsequent to the Measurement Date-an amendment of GASB No. 68"* for periods beginning after June 15, 2014. The District implemented these standards in fiscal year 2015. The result of the implementation of these standards was to decrease the net position at July 1, 2014 by $40.4 million which consists of net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

Fiscal Year 2015-2016 Budget

Economic Factors

Demand and supply of water in the San Diego area has declined over the last five years. Although San Diego received less than normal rainfall in Fiscal Year 2015, the District is expecting that San Diego's rainfall will return to its average pattern and volume in the coming years. San Diego rainfall, while a contributing factor, is not the controlling factor for our potable water supply shortage. The San Diego region imports 90% of its potable supply, so conditions elsewhere significantly affect the actual amount of water available to the District. In the event the amount of water supplied to the District is reduced, water sales revenues would decrease. Related water purchase expenses would also be reduced, mitigating the impact of the decrease in net revenues. The amount of any supply reduction would dictate the magnitude of the District's response and type of reaction.

The District continues to use the challenges presented by growth and the ongoing drought to create new opportunities and new organizational efficiencies. By utilizing and continuing to refine its Strategic Business Plan, it has captured the Board of Director's vision and united its staff in a common mission. The District has achieved a number of significant accomplishments based on its successful adherence to its Strategic Business Plan. The District is not only poised to continue successfully providing an affordable, safe, and reliable water supply for the people of its service area, but is set to reap the rewards of greater efficiencies and economies of scale.

The District is currently at about 52% of its projected ultimate population, serving approximately 217,000 people. Long-term, this percentage should continue to increase as the District's service area continues to develop and grow. By 2035, the District is projected to serve approximately 285,000 people, with an average daily demand of 46 million gallons per day (MGD). Currently, the District services the needs of this growing population by purchasing water from the San Diego County Water Authority (CWA), who in turn purchases its water from the Metropolitan Water District (MWD) and the Imperial Irrigation District (IID).

Otay takes delivery of the water through several connections of large diameter pipelines owned and operated by CWA. The District currently receives treated water from CWA directly and from the Helix Water District via a contract with CWA. In addition, the District has an emergency agreement with the City of San Diego to purchase water in the case of a shutdown of the main treated water source. The City of San Diego also has a long-term contract with the District to provide recycled water for landscape and irrigation usage. Through innovative agreements like these, benefits can be achieved by both parties by using excess capacity of another agency, and diversifying local supply, thereby increasing reliability.

Financial

The District is budgeted to deliver approximately 27,000 acre-feet of potable water to 49,500 potable customer accounts during Fiscal Year 2015-2016. Management feels that these projections are realistic after accounting for low growth, supply changes, and a focus on conservation. A combination of factors, including the ongoing drought and recession, have created challenges in developing economic projections for the current fiscal year. Both unemployment and levels of distressed activity in the commercial and residential resale market have improved from their economic crisis peaks. However, while unemployment has recovered, housing starts remain significantly below the levels of the boom years from 2001 to 2005. The negative impacts to the District of the economic indicators and conservation are partially offset by growth as the District's commercial and residential permits have shown slow and steady improvement from previous lows. While all of these factors impact the region's water usage, people's need for water remains an underlying constant. Staff continues working diligently on developing new water supplies as they work through the financial impacts of conservation and the modest economic turnaround.

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

Contacting the District's Financial Management

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

Basic Financial Statements

Statement of Net Position

June 30, 2015	
ASSETS	
Current Assets:	
Cash and Cash Equivalents (Notes 1 and 2)	$ 23,168,511
Restricted Cash and Cash Equivalents (Notes 1 and 2)	47,083
Investments (Note 2)	35,888,511
Board Designated Investments (Note 2)	22,395,347
Restricted Investments (Notes 1 and 2)	4,532,725
Accounts Receivable, Net	9,987,050
Accrued Interest Receivable	97,291
Taxes and Availability Charges Receivable, Net	321,178
Restricted Taxes and Availability Charges Receivable, Net	31,848
Inventories	807,008
Prepaid Items and Other Receivables	988,882
Total Current Assets	98,265,434
Non-current Assets:	
Net OPEB Asset (Note 7)	11,472,386
Capital Assets (Note 3):	
Land	13,714,963
Construction in Progress	15,106,336
Capital Assets, Net of Depreciation	430,370,095
Total Capital Assets, Net of Depreciation	459,191,394
Total Non-current Assets	470,663,780
Total Assets	568,929,214
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Contributions to Pension Plan	3,575,595
Total Deferred Outflows of Resources	$ 3,575,595

Continued

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

Statement of Net Position

June 30, 2015 - Continued

LIABILITIES		
Current Liabilities:		
Current Maturities of Long-term Debt (Note 4)	$	3,690,000
Accounts Payable		9,779,477
Accrued Payroll Liabilities		3,335,149
Other Accrued Liabilities		3,642,511
Customer and Developer Deposits		2,227,173
Accrued Interest		1,540,122
Liabilities Payable from Restricted Assets:		
Restricted Accrued Interest		65,304
Total Current Liabilities		24,279,736
Non-current Liabilities:		
Long-term Debt (Note 4):		
General Obligation Bonds		4,697,208
Certificates of Participation		43,355,103
Revenue Bonds		53,402,993
Net Pension Liability		38,723,345
Other Non-current Liabilities		656,158
Total Non-current Liabilities		140,834,807
Total Liabilities		165,114,543
DEFERRED INFLOWS OF RESOURCES		
Deferred Actuarial Pension Costs (Note 6)		4,967,940
Total Deferred Inflows of Resources		4,967,940
NET POSITION		
Net Investment in Capital Assets		354,046,090
Restricted for Debt Service		4,658,306
Unrestricted		43,717,930
Total Net Position	$	402,422,326

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

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2015

OPERATING REVENUES		
Water Sales	$	79,135,000
Wastewater Revenue		3,044,158
Connection and Other Fees		1,686,249
Total Operating Revenues		83,865,407
OPERATING EXPENSES		
Cost of Water Sales		54,364,884
Wastewater		1,866,711
Administrative and General		19,437,141
Depreciation		16,194,992
Total Operating Expenses		91,863,728
Operating Income (Loss)		(7,998,321)
NON-OPERATING REVENUES (EXPENSES)		
Investment Earnings		656,925
Taxes and Assessments		3,856,276
Availability Charges		685,555
Gain (Loss) on Sale of Capital Assets		30,282
Rents and Leases		1,232,920
Miscellaneous Revenues		2,490,796
Donations		(117,462)
Interest Expense		(4,545,530)
Miscellaneous Expenses		(1,324,155)
Total Non-operating Revenues (Expenses)		2,965,607
Income (Loss) Before Capital Contributions		(5,032,714)
Capital Contributions		3,081,894
Change in Net Position		(1,950,820)
Total Net Position, Beginning, As Previously Reported		444,807,820
Prior Period Adjustment		(40,434,674)
Total Net Position, Beginning, As Restated		404,373,146
Total Net Position, Ending	$	402,422,326

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

Statement of Cash Flows

For the Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	$ 84,879,648
Receipts from Connections and Other Fees	1,686,249
Other Receipts	2,490,796
Payments to Suppliers	(57,803,850)
Payments to Employees	(20,838,190)
Other Payments	(1,501,218)
Net Cash Provided By (Used For) Operating Activities	8,913,435
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from Taxes and Assessments	3,877,931
Receipts from Property Rents and Leases	1,115,458
Net Cash Provided By (Used For) Noncapital and Related Financing Activities	4,993,389
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Contributions	2,979,305
Proceeds from Sale of Capital Assets	30,735
Proceeds from Debt Related Taxes and Assessments	685,555
Principal Payments on Long-Term Debt	(3,495,000)
Interest Payments and Fees	(4,497,782)
Acquisition and Construction of Capital Assets	(8,632,578)
Net Cash Provided By (Used For) Capital and Related Financing Activities	(12,929,765)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received on Investments	643,313
Proceeds from Sale and Maturities of Investments	44,917,589
Purchase of Investments	(53,932,480)
Net Cash Provided By (Used For) Investing Activities	(8,371,578)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,394,519)
Cash and Cash Equivalents - Beginning	30,610,113
Cash and Cash Equivalents - Ending	$ 23,215,594

Continued

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

Statement of Cash Flows

For the Year Ended June 30, 2015 - Continued

Reconciliation of Operating Income (Loss) to Net Cash Flows Provided By (Used For) Operating Activities:		
Operating Income (Loss)	$	(7,998,321)
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Depreciation		16,194,992
Miscellaneous Revenues		2,490,796
Miscellaneous Expenses		(1,501,218)
(Increase) Decrease in Accounts Receivable		2,892,071
(Increase) Decrease in Inventory		(32,001)
(Increase) Decrease in Net OPEB Asset		(1,087,050)
(Increase) Decrease in Prepaid Items and Other Receivables		58,826
(Increase) Decrease in Contributions to Pension Plan		(318,984)
Increase (Decrease) in Accounts Payable		(2,126,549)
Increase (Decrease) in Accrued Payroll and Related Expenses		280,629
Increase (Decrease) in Other Accrued Liabilities		245,011
Increase (Decrease) in Customer Deposits		(191,581)
Increase (Decrease) in Prepaid Capacity Fees		6,814
Net Cash Provided By (Used For) Operating Activities	$	8,913,435
Schedule of Cash and Cash Equivalents:		
Current Assets:		
Cash and Cash Equivalents	$	23,168,511
Restricted Cash and Cash Equivalents		47,083
Total Cash and Cash Equivalents	$	23,215,594
Supplemental Disclosures		
Non-Cash Investing and Financing Activities Consisted of the Following:		
Contributed Capital for Water and Sewer System	$	102,590
Change in Fair Value of Investments and Recognized Gains/Losses		23,827
Amortization Related to Long-term Debt		78,118
Amortization Related to Pension		1,241,985

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

Notes to Financial Statements

NOTE	DESCRIPTION	PAGE
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See Independent Auditors' report

Year Ended June 30, 2015

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

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

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

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

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

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

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

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.

Year Ended June 30, 2015

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

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

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

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

Net Investment in Capital Assets

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

Restricted Net Position

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

Unrestricted Net Position

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

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

The District recognizes revenues from water sales, wastewater revenues, and meter fees as they are earned. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego, net of allowance for delinquencies of $39,225 at June 30, 2015.

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

Year Ended June 30, 2015

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

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

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

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

C) New Accounting Pronouncements

Implemented

The GASB has issued Statements No. 68, "*Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*", No. 69 "*Government Combinations and Disposals of Government Operations*", and No. 71 "*Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*". The requirements for Statements No. 68 and No. 71 are effective for financial statements for periods beginning after June 15, 2014 and Statement No. 69 is effective for financial statements for periods beginning after December 15, 2013. Statement No. 69 is not applicable to the District at this time. Statements No. 68 and No. 71 have been implemented and are reflected on the District's financial statements and beginning net position.

Pending Accounting Standards

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

i. GASB 72 – "*Fair Value Measurement and Application*", effective for the fiscal years beginning after June 15, 2015.

ii. GASB 73 – "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for fiscal years beginning after June 15, 2015.

iii. GASB 74 – "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, effective for fiscal years beginning after June 15, 2016.

iv. GASB 75 – "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", effective for fiscal years beginning after June 15, 2017.

v. GASB 76 – "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", effective for fiscal years beginning after June 15, 2015.

Year Ended June 30, 2015

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

D) Deferred Outflows / Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category, *deferred contributions to pension plan,* which is related to contributions subsequent to the measurement date of the pension plan.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has only one item that qualifies for reporting in this category. Accordingly, the item, deferred actuarial pension cost, are deferred and recognized as an inflow of resources in the period that the amounts become available.

E) Statements of Cash Flows

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

F) Investments

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

G) Inventory and Prepaids

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

H) Capital Assets

Capital assets are recorded at cost, where historical records are available, and at an estimated historical cost where no historical records exist. Infrastructure assets in excess of $20,000 and other capital assets in excess of $10,000 are capitalized if they have an expected useful life of two years or more. The District will also capitalize individual purchases under the capitalization threshold if they are part of a new capital program. The cost of purchased and self-constructed additions to utility plant and major replacements of property are capitalized. Costs include materials, direct labor, transportation, and such indirect items as engineering, supervision, employee fringe benefits,

Year Ended June 30, 2015

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

H) Capital Assets - Continued

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

The District capitalizes interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest for fiscal year ending June 30, 2015 of $179,476 is included in the cost of water system assets and is depreciated on the straight-line basis over the estimated useful lives of such assets.

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

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

I) Compensated Absences

It is the District's policy to record vested or accumulated vacation and sick leave as an expense and liability as benefits accrue to employees.

	Beginning Balance	Additions	Reductions	Ending Balance[1]	Due Within One Year
Compensated Absences	$ 2,352,861	$ 2,700,572	$ 2,523,241	$ 2,530,192	$ 253,019

[1]Balance is reflected in Accrued Payroll Liabilities on the Statement of Net Position.

J) Classification of Liabilities

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

K) Allowance for Doubtful Accounts

The District charges doubtful accounts arising from water sales receivable to bad debt expense when it is probable that the accounts will be uncollectible. Uncollectible accounts are determined by the allowance method based upon prior experience and management's assessment of the collectability of existing specific accounts. The allowance for doubtful accounts was $158,716 for 2015.

Year Ended June 30, 2015

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

L) Property Taxes

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

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

M) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N) 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.

O) Reclassifications

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

2) CASH AND INVESTMENTS

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

Year Ended June 30, 2015

2) CASH AND INVESTMENTS - Continued

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

Statement of Net Position:	
Cash and Cash Equivalents	$ 23,168,511
Restricted Cash and Cash Equivalents	47,083
Investments	35,888,511
Board Designated Investments	22,395,347
Restricted Investments	4,532,725
Total Cash and Investments	$ 86,032,177

Cash and Investments consist of the following:

Cash on Hand	$ 2,950
Deposits with Financial Institutions	2,074,424
Investments	83,954,803
Total Cash and Investments	$ 86,032,177

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[1]	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

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

Year Ended June 30, 2015

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 rates risk is by purchasing investments with shorter durations than what is allowable under the District's investment policy and by timing cash flows from maturities, so that a portion of the portfolio is maturing or coming close to maturity evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations are provided by the following tables that show the distribution of the District's investments by maturity as of June 30, 2015.

		Remaining Maturity (in Months)			
Investment Type		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Government Sponsored Entities	$62,730,204	$ 3,000,390	$28,006,120	$31,723,694	$ -
Local Agency Investment Fund (LAIF)	7,593,516	7,593,516	-	-	-
San Diego County Pool	13,584,000	13,584,000	-	-	-
Money Market Funds	47,083	47,083	-	-	-
Total	$83,954,803	$24,224,989	$28,006,120	$31,723,694	$ -

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's Investment Policy, or debt agreements, and the Moody's ratings as of June 30, 2015.

Year Ended June 30, 2015

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Credit Risk - Continued

Investment Type		Minimum Legal Rating	Rating as of Year End			
			AAA	AA	A-1	Not Rated
U.S. Government Sponsored Entities	$62,730,204	N/A	$62,730,204	$	$ -	$ -
Local Agency Investment Fund (LAIF)	7,593,516	N/A	-		-	7,593,516
San Diego County Pool	13,584,000	N/A	-		-	13,584,000
Money Market Funds	47,083	N/A	-		47,083	-
Total	$83,954,803		$62,730,204	$	$ 47,083	$21,177,516

Concentration of Credit Risk

The investment policy of the District contains various limitations on the amounts that can be invested in any one type or group of investments and in any issuer, beyond that stipulated by the California Government Code, Sections 53600 through 53692. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments as of June 30, 2015 are as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	U.S. Government Sponsored Entities	$ 13,989,160
Federal Home Loan Mortgage Corp	U.S. Government Sponsored Entities	$ 22,006,280
Federal National Mortgage Association	U.S. Government Sponsored Entities	$ 8,003,200
Federal Farm Credit Banks	U.S. Government Sponsored Entities	$ 18,731,564

Custodial Credit Risk

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

Year Ended June 30, 2015

2) CASH AND INVESTMENTS - Continued

Custodial Credit Risk - Continued

As of June 30, 2015, $1,569,955 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Local Agency Investment Fund (LAIF)

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

San Diego County Pooled Fund

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

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

Restricted Cash and Cash Equivalents

Debt Service:	
Water Revenue Bond Series 2010A	$ 12,816
Water Revenue Bond Series 2010B	34,267
Total	$ 47,083

Board Designated Investments

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

New Water Supply	$ 287,697
Replacement	22,107,650
Total	$ 22,395,347

See Independent Auditors' report

Year Ended June 30, 2015

2) CASH AND INVESTMENTS - Continued

Restricted Investments

Debt Service:	
General Obligation Bond ID No. 27-2009	$ 793,131
Water Revenue Bond Series 2010A	1,031,267
Water Revenue Bond Series 2010B	2,708,327
Total	$ 4,532,725

3) CAPITAL ASSETS

The following is a summary of changes in Capital Assets for the year ended June 30, 2015:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated				
Land	$ 13,714,963	$ -	$ -	$ 13,714,963
Construction in Progress	11,642,506	9,829,453	(6,365,623)	15,106,336
Total Capital Assets Not Depreciated	25,357,469	9,829,453	(6,365,623)	28,821,299
Capital Assets, Being Depreciated				
Infrastructure	617,348,375	4,032,123	(296,458)	621,084,040
Field Equipment	8,812,693	16,188	(108,693)	8,720,188
Buildings	18,928,879	63,773	-	18,992,652
Transportation Equipment	3,308,602	205,180	(115,412)	3,398,370
Communication Equipment	2,880,141	216,927	-	3,097,068
Office Equipment	17,513,193	755,189	(44,938)	18,223,444
Total Capital Assets Being Depreciated	668,791,883	5,289,380	(565,501)	673,515,762
Less Accumulated Depreciation:				
Infrastructure	193,225,204	13,624,785	(278,683)	206,571,306
Field Equipment	7,495,508	182,754	(108,694)	7,569,568
Buildings	8,336,568	504,880	-	8,841,448
Transportation Equipment	2,299,848	259,162	(115,412)	2,443,598
Communication Equipment	1,746,613	473,344	-	2,219,957
Office Equipment	14,394,208	1,150,067	(44,485)	15,499,790
Total Accumulated Depreciation	227,497,949	16,194,992	(547,274)	243,145,667
Total Capital Assets Being Depreciated, Net	441,293,934	(10,905,612)	(18,227)	430,370,095
Total Capital Assets, Net	$ 466,651,403	$ (1,076,159)	$ (6,383,850)	$ 459,191,394

Depreciation expense for the year ended June 30, 2015 was $16,194,992.

See Independent Auditors' report

Year Ended June 30, 2015

4) LONG-TERM DEBT

Long-term liabilities for the year ended June 30, 2015 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds:					
Improvement District No. 27 - 2009	$ 5,700,000	$ -	$ 550,000	$ 5,150,000	$ 570,000
Unamortized Bond Premium	133,563	-	16,355	117,208	-
Net General Obligation Bonds	5,833,563	-	566,355	5,267,208	570,000
Certificates of Participation:					
1996 Certificates of Participation	9,900,000	-	500,000	9,400,000	600,000
2007 Certificates of Participation	36,790,000	-	995,000	35,795,000	1,035,000
1996 COPS Unamortized Discount	(9,687)	-	(745)	(8,942)	-
2007 COPS Unamortized Discount	(204,999)	-	(9,044)	(195,955)	-
Net Certificates of Participation	46,475,314	-	1,485,211	44,990,103	1,635,000
Revenue Bonds:					
2010 Water Revenue Bonds Series A	11,435,000	-	845,000	10,590,000	870,000
2010 Water Revenue Bonds Series B	36,355,000	-	-	36,355,000	-
2013 Water Revenue Refunding Bonds	7,075,000	-	605,000	6,470,000	615,000
2010 Series A Unamortized Premium	762,617	-	74,402	688,215	-
2013 Bonds Unamortized Premium	880,873	-	96,095	784,778	-
Net Revenue Bonds	56,508,490	-	1,620,497	54,887,993	1,485,000
Total Long-Term Liabilities	$ 108,817,367	$ -	$ 3,672,063	$105,145,304	$ 3,690,000

General Obligation Bonds

In June 1998, the District issued $11,835,000 of General Obligation Refunding Bonds. The proceeds of this issue, together with other lawfully available monies, were to be used to establish an irrevocable escrow to advance refund and defease in their entirety the District's previous outstanding General Obligation Bond issue. In November 2009, the District issued $7,780,000 of General Obligation Refunding Bonds Improvement District No. 27-2009 to refund the 1998 issue. The proceeds from the bond issue were $7,989,884, which included an original issue premium of $209,884. An amount of $7,824,647, which consisted of unpaid principal and accrued interest, was deposited into an escrow fund. Pursuant to an optional redemption clause in the 1998 bonds, the District was able to redeem the 1998 bonds, without premium at any time after September 1, 2009. On December 15, 2009 the 1998 bonds were refunded.

Year Ended June 30, 2015

4) LONG-TERM DEBT - Continued

General Obligation Bonds - Continued

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

The Improvement District No. 27-2009 General Obligation Refunding Bonds have interest rates from 3.00% to 4.00% with maturities through Fiscal Year 2023.

Future debt service requirements for the bonds are as follows:

For the Year Ended June 30,	Principal	Interest
2016	$ 570,000	$ 187,362
2017	585,000	169,306
2018	605,000	147,700
2019	635,000	122,900
2020	650,000	97,200
2021-2025	2,105,000	127,900
	$ 5,150,000	$ 852,368

Certificates of Participation (COPS)

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

Year Ended June 30, 2015

4) 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	1996 COPS		2007 COPS	
Ended June 30,	Principal	Interest[1]	Principal	Interest
2016	$ 600,000	$ 4,450	$ 1,035,000	$ 1,479,239
2017	600,000	4,150	1,075,000	1,439,408
2018	600,000	3,850	1,115,000	1,397,798
2019	700,000	3,508	1,155,000	1,354,234
2020	700,000	3,158	1,200,000	1,308,456
2021-2025	4,100,000	9,942	6,785,000	5,762,360
2026-2030	2,100,000	725	8,335,000	4,192,867
2031-2035	-	-	10,310,000	2,208,437
2036-2037	-	-	4,785,000	211,641
	$ 9,400,000	$ 29,783	$35,795,000	$19,354,440

[1] Variable Rate - Interest reflected at June 30, 2015 at a rate of 0.05%.

The two COP debt issues contain various covenants and restrictions, principally that the District fix, prescribe, revise and collect rates, fees and charges for the Water System which will be at least sufficient to yield, during each fiscal year, taxes and net revenues equal to one hundred twenty-five percent (125%) of the debt service for such fiscal year. The District was in compliance with these rate covenants for the fiscal year ended June 30, 2015.

Water Revenue Bonds

In April 2010, Water Revenue Bonds with a face value of $50,195,000 were sold by the Otay Water District Financing Authority to provide funds for the construction of water storage and transmission facilities. The bond issue consisted of two series; Water Revenue Bonds, Series 2010A (Non-AMT Tax Exempt) with a face value of $13,840,000 plus a $1,078,824 original issue premium, and Water Revenue Bonds Series 2010B (Taxable Build America Bonds) with a face value of $36,255,000. The Series 2010A bonds are due

Year Ended June 30, 2015

4) LONG-TERM DEBT - Continued

Water Revenue Bonds - Continued

in annual installments of $785,000 to $1,295,000 from September 1, 2012 through September 1, 2025; bearing interest at 2% to 5.25%. The Series 2010B bonds are due in annual installments of $1,365,000 to $3,505,000 from September 1, 2026 through September 1, 2040; bearing interest at 6.377% to 6.577%. Interest on both Series is payable on September 1, 2010 and semiannually thereafter on March 1st and September 1st of each year until maturity or earlier redemption. The installment payments are to be made from Taxes and Net Revenues of the Water System as described in the installment purchase agreement, on parity with the payments required to be made by the District for the 1996, and 2007 Certificates of Participation described above and the 2013 Water Revenue Refunding Bonds described below.

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

The original issue premium is being amortized over the 14 year life of the Series 2010A bonds. Amortization for the year ending June 30, 2015 was $74,402 and is included in interest expense. The unamortized premium at June 30, 2015 is $688,215.

The 2010 Water Revenue Bonds contains various covenants and restrictions, principally that the District fix, prescribe, revise and collection rates, fees and charges for the Water System which will be at least sufficient to yield, during each fiscal year, taxes and net revenues equal to one hundred twenty-five percent (125%) of the debt service for such fiscal year. The District was in compliance with these rate covenants for the fiscal year ended June 30, 2015.

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

The original issue premium is being amortized over the 11 year life of the Series 2013 bonds. Amortization for the year ending June 30, 2015 was $96,095 and is included in interest expense. The unamortized premium at June 30, 2015 is $784,778.

Year Ended June 30, 2015

4) LONG-TERM DEBT - Continued

Water Revenue Bonds - Continued

The total amount outstanding at June 30, 2015 and aggregate maturities of the revenue bonds for the fiscal years subsequent to June 30, 2015, are as follows:

For the Year	2010 Water Revenue Bond Series A		2010 Water Revenue Bond Series B		2013 Water Revenue Refunding Bonds	
Ended June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 870,000	$ 478,488	$ -	$ 2,371,868	$ 615,000	$ 243,425
2017	900,000	443,088	-	2,371,868	635,000	221,500
2018	940,000	406,287	-	2,371,868	660,000	195,600
2019	975,000	367,987	-	2,371,868	685,000	168,700
2020	1,015,000	323,112	-	2,371,868	715,000	140,700
2021-2025	5,890,000	779,569	-	11,859,342	3,160,000	258,800
2026-2030	-	-	7,745,000	10,685,177	-	-
2031-2035	-	-	10,570,000	7,756,703	-	-
2036-2040	-	-	14,535,000	3,664,212	-	-
2041-2042	-	-	3,505,000	115,262	-	-
	$ 10,590,000	$ 2,798,531	$ 36,355,000	$ 45,940,036	$ 6,470,000	$ 1,228,725

Revenues Pledged

The District has pledged a portion of future water sales revenues to repay its Water Revenue Bonds and Certificates of Participation. Total principal and interest remaining on the water revenue bonds and certificates of participation is $167,961,515 payable through fiscal year 2042. For the current year, principal and interest paid by the water sales revenues were $2,945,000 and $4,634,937, respectively.

5) NET POSITION

Designations of Net Position

In addition to the restricted net position, a portion of unrestricted net position, have been designated by the Board of Directors for the following purposes as of June 30, 2015:

Designated Betterment	$ 5,072,063
Expansion Reserve	4,486,171
Replacement Reserve	23,822,678
Designated New Supply Fund	758,956
Employee Benefits Reserve	31,445
Total	$ 34,171,313

See Independent Auditors' report

Year Ended June 30, 2015

6) DEFINED BENEFIT PENSION PLAN

A) General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District's Plan, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

Hire Date	Prior to January 1, 2013	On or After January 1, 2013
Benefit Formula	2.7% at 55	2% at 62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	50 - 55	52 - 67
Monthly Benefits, as a % of Eligible Compensation	2.0% to 2.7%	1.0% to 2.5%
Required Employee Contribution Rates	8%	6.25%
Required Employer Contribution Rates	20.869% - 25.435%	25.435% - 29.152%

Employees Covered

At June 30, 2015, the following employees were covered by the benefit terms for the Plan:

Inactive Employees or Beneficiaries Currently Receiving Benefits	161
Inactive Employees Entitled to But Not Yet Receiving Benefits	142
Active Employees	137
Total	440

Year Ended June 30, 2015

6) DEFINED BENEFIT PENSION PLAN - Continued

A) General Information about the Pension Plans - Continued

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

B) Net Pension Liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2014, using the annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below:

Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2%[1]
Investment Rate of Return	7.5%[2]

[1] Depending on age, service and type of employment.

[2] Net of pension plan investment expenses, including inflation.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Year Ended June 30, 2015

6) DEFINED BENEFIT PENSION PLAN - Continued

B) Net Pension Liability - Continued

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrator expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above the rounded down to the nearest one quarter of one percent.

Year Ended June 30, 2015

6) DEFINED BENEFIT PENSION PLAN - Continued

B) *Discount Rate* – Continued

The following table reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

C) Changes in the Net Position Liability

The changes in the Net Position Liability for the Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Beginning Balance	$ 106,716,218	$ 63,144,370	$ 43,571,848
Changes in the Year:			
Service Cost	2,330,709		2,330,709
Interest on the Total Pension Liability	7,907,915		7,907,915
Changes in Benefit Terms		0	0
Differences Between Actual and Expected Experience	0		0
Changes in Assumptions	0		0
Contribution - Employer		3,137,174	(3,137,174)
Contribution - Employee		1,074,954	(1,074,954)
Net Investment Income		10,874,999	(10,874,999)
Benefit Payments, Including Refunds of Employee Contributions	(4,885,406)	(4,885,406)	0
Net Changes	5,353,218	10,201,721	(4,848,503)
Ending Balance	$ 112,069,436	$ 73,346,091	$ 38,723,345

See Independent Auditors' report

Year Ended June 30, 2015

6) DEFINED BENEFIT PENSION PLAN - Continued

C) Changes in the Net Position Liability - Continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the District for the Plan, calculated using the discount rate for the Plan, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease		6.50%
Net Pension Liability	$	53,440,281
Current Discount Rate		7.50%
Net Pension Liability	$	38,723,345
1% Increase		8.50%
Net Pension Liability	$	26,496,138

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

D) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the District recognized pension expense of $3,256,611. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following services:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,575,595	$
Differences between actual and expected experience		
Changes in assumptions		
Net differences between projected and actual earnings on pension plan investments		(4,967,940)
Total	$ 3,575,595	$ (4,967,940)

$3,575,595 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30, 2015

6) DEFINED BENEFIT PENSION PLAN - Continued

D) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - Continued

Year Ended June 30		
2016	$	(1,241,985)
2017		(1,241,985)
2018		(1,241,985)
2019		(1,241,985)
2020		
Thereafter		

E) Payable to the Pension Plan

At June 30, 2015, the District reported a payable of $167,970 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

7) OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Prior to the plan agreements signed in 2011, the eligibility in the plan was broken into 3 tiers, employees hired before January 1, 1981, employees hired on or after January 1, 1981 but before July 1, 1993 and employees hired on or after July 1, 1993. Board members elected before January 1, 1995 are also eligible for the plan. Eligibility also includes age and years of service requirements which vary by tier. Benefits include 100% medical and dental premiums for life for the retiree for Tier I, II or III employees, and up to 100% spouse premium until death of retiree or age 65 whichever is greater and dependent premium up to age 19 depending on the tier. The plan also includes survivor benefits to Medicare.

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

Year Ended June 30, 2015

7) OTHER POST EMPLOYMENT BENEFITS - Continued

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. Effective January 1, 2013, represented employees hired prior to January 1, 2013 or hired on or after January 1, 2013 from another public agency that has reciprocity without having a break in service of more than six months, contribute .75% of covered salaries. In addition, unrepresented and represented employees hired on or after January 1, 2013, and do not have reciprocity from another public agency, contribute 1.75% and 2.5% of covered salaries, respectively. DPHP members receiving benefits contribute based on their selected plan options of EPO, HMO or PPO and whether they are outside the State of California. Contributions by plan members range from $0 to $165 per month for coverage to age 65, and from $0 to $170 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 (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 11.4% 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 for the year ended June 30, 2015:

Annual Required Contribution (ARC)	$	1,413,000
Interest on Net OPEB Asset		(752,937)
Adjustment to Annual Required Contribution (ARC)		713,000
Annual OPEB Cost (Expense)		1,373,063
Contributions Made		2,460,113
Increase in Net OPEB Asset		(1,087,050)
Net OPEB Asset - Beginning of Year		(10,385,336)
Net OPEB Asset - End of Year	$	(11,472,386)

For 2015, in addition to the ARC, the District contributed cash benefit payments outside the trust (healthcare premium payments for retirees to Special District Risk Management Authority (SDRMA) in the amount of $929,113, which is included in the $2,460,113 of contributions shown above.

Year Ended June 30, 2015

7) OTHER POST EMPLOYMENT BENEFITS - Continued

Annual OPEB Cost and Net OPEB Obligation/Asset - Continued

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation/asset for the fiscal years 2015, 2014 and 2013 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT

Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/15	$ 1,373,063	179%	$ (11,472,386)
6/30/14	$ 1,386,456	175%	$ (10,385,336)
6/30/13	$ 1,226,662	183%	$ (9,345,437)

Funded Status and Funding Progress

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

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

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

Actuarial Methods and Assumptions

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

Year Ended June 30, 2015

7) OTHER POST EMPLOYMENT BENEFITS - Continued

Actuarial Methods and Assumptions - Continued

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

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	23-Year Fixed (Closed) Period as of the Valuation Date
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.25% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	3.00%
Individual Salary Growth	CalPERS 1997-2007 Experience Study
Healthcare Cost Trend Rate	Medical: 10% per annum graded down in approximately one-half percent increments to an ultimate rate of 5%. Dental: 4% per annum.

8) WATER CONSERVATION AUTHORITY

In 1999 the District formed the Water Conservation Garden Authority (the "Authority"), a Joint Powers Authority, with other local entities to construct, maintain and operate a xeriscape demonstration garden in the furtherance of water conservation. The authority is a non-profit public charity organization and is exempt from income taxes. During the year ended June 30, 2015, the District contributed $117,462 for the development, construction and operation costs of the xeriscape demonstration garden.

A summary of the Authority's June 30, 2014 audited financial statement is as follows (latest report available):

Assets	$	1,467,333
Liabilities		0
Net Assets	$	1,467,333
Revenues, Gains and Other Support	$	520,000
Expenses		604,707
Changes in Net Assets	$	(84,707)

9) COMMITMENTS AND CONTINGENCIES

Construction Commitments

The District had committed to capital projects under construction with an estimated cost to complete of $12,724,286 at June 30, 2015.

Year Ended June 30, 2015

9) COMMITMENTS AND CONTINGENCIES - Continued

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, 2015, 1,750 EDUs had been relinquished and refunded, 15,076 EDUs had been connected, and 1,041 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, 2015, none of the outstanding developer agreements had been accepted, however it is anticipated that the District will be liable for an amount not to exceed $221,320 at the point of acceptance. Accordingly, the District has accrued a liability as of year end.

10) RISK MANAGEMENT

General Liability

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

Year Ended June 30, 2015

10) RISK MANAGEMENT - Continued

General Liability - Continued

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

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

Employee Dishonesty Coverage: Total of $400,000 per loss includes Public Employee Dishonesty, Forgery or Alteration and Theft, Disappearance and Destruction coverage's effective July 1, 2014. Coverage was increased by $600,000 during the fiscal year for a total of $1,000,000 as of June 30, 2015.

Property Loss: Replacement cost, for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of $1 billion per occurrence, subject to a $1,000 deductible per occurrence, effective July 1, 2014.

Boiler and Machinery: Replacement cost up to $100 million per occurrence, subject to a $1,000 deductible, effective July 1, 2014.

Public Officials Personal Liability: $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage's, deductible of $500 per claim, effective July 1, 2014.

Comprehensive and Collision: On selected vehicles, with deductibles of $250/$500 or $500/$1,000, as elected; ACV limits; fully self-funded by SDRMA; Policy No. LCA - SDRMA – 2014-15, effective July 1, 2014.

Workers' Compensation Coverage and Employer's Liability: Statutory limits per occurrence for Workers' Compensation and $5.0 million for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, effective July 1, 2014.

Health Insurance

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

Year Ended June 30, 2015

10) RISK MANAGEMENT - Continued

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.

11) INTEREST EXPENSE

Interest expense for the years ended June 30, 2015 is as follows:

Amount Expensed	$ 4,545,530
Amount Capitalized as a Cost of Construction Projects	179,476
Total Interest	$ 4,725,006

12) SEGMENT INFORMATION

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

Year Ended June 30, 2015

12) SEGMENT INFORMATION - Continued

Summary financial information for the water services is presented for June 30, 2015:

Condensed Statement of Net Position
June 30, 2015

	Water Services
ASSETS	
Current Assets	$ 98,230,595
Capital Assets	441,407,136
Other Assets	11,472,386
Total Assets	551,110,117
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Contributions to Pension Plans	3,411,118
Total Deferred Outflows of Resources	3,411,118
LIABILITIES	
Current Liabilities	23,872,564
Long-term Liabilities	139,053,533
Total Liabilities	163,926,097
DEFERRED INFLOWS OF RESOURCES	
Deferred Actuarial Pension Costs	4,739,415
Total Deferred Inflows of Resources	4,739,415
NET POSITION	
Net Investment in Capital Assets	336,261,832
Restricted for Debt Service	4,658,306
Unrestricted	45,935,585
Total Net Position	$ 386,855,723

Year Ended June 30, 2015

12) SEGMENT INFORMATION - Continued

Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

	Water Services
Operating Revenues	
Water Sales	$ 79,135,000
Connection and Other Fees	1,679,503
Total Operating Revenues	80,814,503
Operating Expenses	
Cost of Water Sales	54,324,307
Administrative and General	19,520,170
Depreciation	15,144,486
Total Operating Expenses	88,988,963
Operating Income (Loss)	(8,174,460)
Non-operating Revenues (Expenses)	
Investment Earnings	583,225
Taxes and Assessments	3,855,839
Availability Charges	641,002
Gain (Loss) on Sale of Capital Assets	30,282
Rents and Leases	1,232,920
Miscellaneous Revenues	2,490,796
Donations	(117,462)
Interest Expense	(4,545,530)
Miscellaneous Expenses	(1,312,480)
Total Non-operating Revenues (Expenses)	2,858,592
Income (Loss) Before Capital Contributions	(5,315,868)
Capital Contributions	2,394,280
Change in Net Position	(2,921,588)
Total Net Position, Beginning, As Previously Stated	428,351,990
Prior Period Adjustment	(38,574,679)
Total Net Position, Beginning, As Restated	389,777,311
Total Net Position, Ending	$ 386,855,723

See Independent Auditors' report

Year Ended June 30, 2015

12) SEGMENT INFORMATION - Continued

Condensed Statement of Cash Flows
For the Year Ended June 30, 2015

	Water Services
Net Cash Provided/(Used) by:	
Operating Activities	$ 7,808,220
Non-capital and Related Financing Activities	5,110,851
Capital and Related Financing Activities	(11,878,822)
Investing Activities	(8,434,768)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,394,519)
Cash and Cash Equivalents, Beginning	30,610,113
Cash and Cash Equivalents, Ending	$ 23,215,594

13) PRIOR PERIOD ADJUSTMENT

The prior period adjustment of $40,434,674 relates to the implementation of GASB Statements 68 and 71 for defined benefit pension plans. According to GASB Statement 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB 68 Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*, which was implemented by the District in the 2015 fiscal year, recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to defined benefit pension plans.

Required Supplementary Information

Schedule of Funding Progress for DPHP

Year Ended June 30, 2015

Schedule of Funding Progress for DPHP

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
6/30/13						
Miscellaneous	$ 11,831,000	$ 22,891,000	$ 11,060,000	51.68%	$ 11,969,000	92.41%
6/30/11						
Miscellaneous	$ 7,893,000	$ 18,289,000	$ 10,396,000	43.16%	$ 12,429,000	83.64%
6/30/09						
Miscellaneous	$ 6,273,000	$ 10,070,000	$ 3,797,000	62.29%	$ 11,878,000	31.97%

See Independent Auditors' report

Schedule of Changes In the Net Pension Liability and Related Ratios

Year Ended June 30, 2015

Measurement Period		2013-14[1]
TOTAL PENSION LIABILITY		
Service Cost	$	2,330,709
Interest		7,907,915
Changes of Benefit Terms		0
Difference Between Expected and Actual Experience		0
Changes of Assumptions		0
Benefit Payments, Including Refunds of Employee Contributions		(4,885,406)
Net Change in Total Pension Liability		5,353,218
Total Pension Liability - Beginning		106,716,218
Total Pension Liability – Ending (a)	$	112,069,436
PLAN FIDUCIARY NET POSITION		
Contributions - Employer	$	3,137,174
Contributions – Employee		1,074,954
Net Investment Income[2]		10,874,999
Benefit Payments, Including Refunds of Employee Contributions		(4,885,406)
Other Changes in Fiduciary Net Position		0
Net Change in Fiduciary Net Position		10,201,721
Plan Fiduciary Net Position - Beginning		63,144,370
Plan Fiduciary Net Position – Ending (b)	$	73,346,091
Plan Net Pension Liability/(Asset) – Ending (a) – (b)	$	38,723,345
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		65.45%
Covered-Employee Payroll	$	12,276,578
Plan Net Pension Liability/(Asset) as a Percentage of Covered Employee Payroll		315.42%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.

[2] Net of administrative expenses.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have results from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: There were no changes in assumptions.

See Independent Auditors' report

Schedule of Contributions

Year Ended June 30, 2015

Schedule of Plan Contributions[1]

	Fiscal Year 2013-14
Actuarially Determined Contribution[2]	$ 3,137,174
Contributions in Relation to the Actuarially Determined Contribution[2]	(3,137,174)
Contribution Deficiency (Excess)	$ 0
Covered-Employee Payroll[3], [4]	$ 12,276,578
Contributions as a Percentage of Covered-Employee Payroll[3]	25.55%

[1]Historical information is required only for measurement periods for which GASB 68 is applicable.

[2]Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions toward their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

[3]Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

[4]Payroll from prior year $11,919,008 was assumed to increase by the 3.00 percent payroll growth assumption.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2013-14 were from the June 30, 2011 public agency valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details see June 30, 2011 Funding Valuation Report
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2011 Funding Valuation Report
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality

See Independent Auditors' report

Statistical Schedules

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

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Financial Trends 66

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Revenue Capacity 72

These schedules contain information to help the reader assess the factors affecting the District's ability to generate its potable and recycled water, and sewer sales as well as property and sales taxes.

Debt 81

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt.

Demographic and Economic Information 85

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.

Operating Information 87

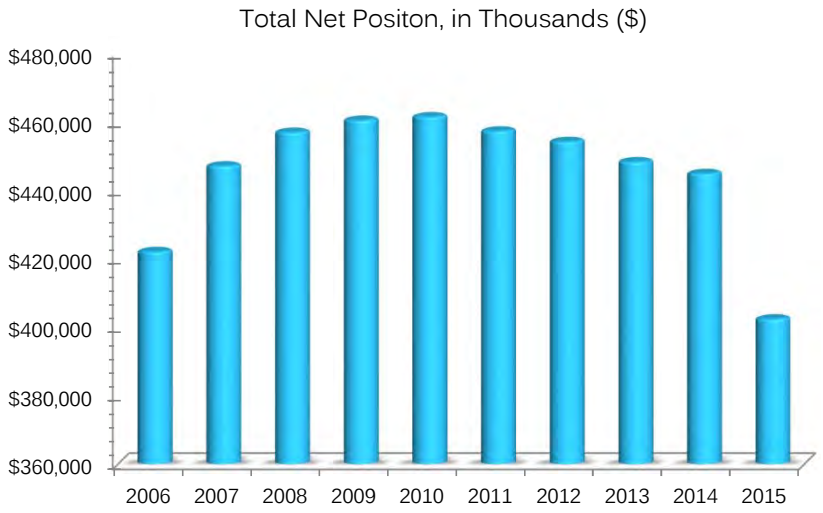
These schedules contain information about the District's operation and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

Sources

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

Net Position by Component - Last Ten Fiscal Years

Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2015	$ 354,046,090	$ 4,658,306	$ 43,717,930	$ 402,422,326 [1]
2014	357,912,154	3,855,673	83,039,993	444,807,820
2013	376,549,168	4,612,890	67,071,849	448,233,907
2012	381,725,015	4,715,904	67,701,068	454,141,987
2011	377,656,762	4,915,555	74,627,563	457,199,880
2010	375,953,042	5,192,111	80,204,428	461,349,581
2009	382,410,491	1,797,512	76,136,868	460,344,871
2008	372,696,591	9,411,114	74,719,712	456,827,417
2007	374,667,591	2,071,307	70,282,627	447,021,525
2006	361,590,845	2,408,473	58,066,009	422,065,327



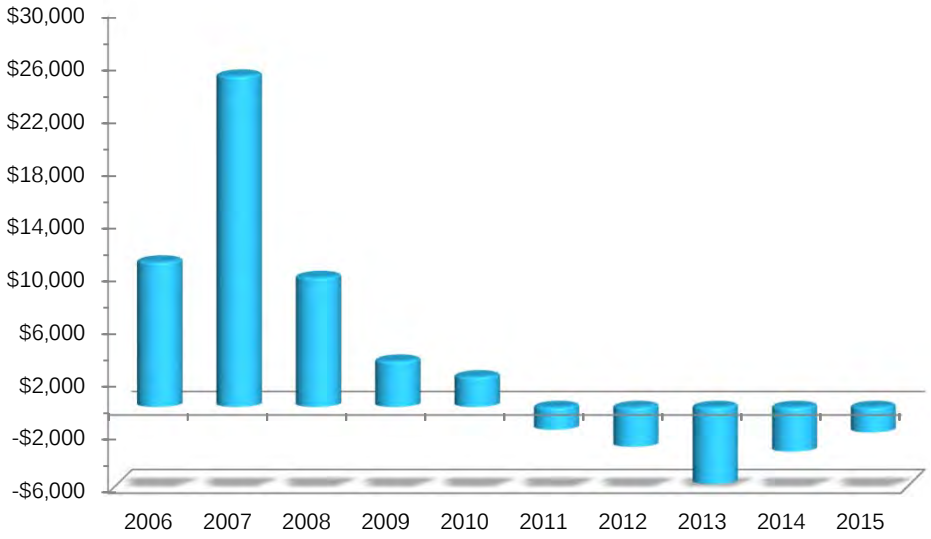
[1] For Fiscal Year ending June 30, 2015, the $42.4 million decrease of Total Net Position is primarily due to the implementation of Governmental Accounting Standards Board (GASB) Statements No. 68 "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27" and No. 71 "Pension Transitions for Contributions Made Subsequent to the Measurement Date-an amendment of GASB No. 68". Implementation of these standards resulted in a decrease of Net Position at July 1, 2014 by $40.4 million.

Source: *Otay Water District*

Changes in Net Position - Last Ten Fiscal Years

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income/ (Loss)	Total Non-Operating Revenues/ (Expenses)	Income (Loss) Before Capital Contributions	Capital Contributions	Changes in Net Position
2015	$ 83,865,407	$ 91,863,728	$ (7,998,321)	$ 2,965,607	$ (5,032,714)	$ 3,081,894	$ (1,950,820)
2014	86,025,573	92,567,023	(6,541,450)	(277,057)	(6,818,507)	3,392,420	(3,426,087)
2013	76,881,388	87,335,338	(10,453,950)	1,770,738	(8,683,212)	2,775,132	(5,908,080)
2012	68,400,349	81,795,466	(13,395,117)	3,511,327	(9,883,790)	6,825,897	(3,057,893)
2011	63,204,216	77,266,228	(14,062,012)	4,452,825	(9,609,187)	7,866,190	(1,742,997)
2010	60,686,681	73,126,342	(12,439,661)	5,937,575	(6,502,086)	8,839,892	2,337,806
2009	57,103,311	71,507,161	(14,403,850)	10,932,096	(3,471,754)	6,989,208	3,517,454
2008	55,714,845	71,474,372	(15,759,527)	10,623,457	(5,136,070)	14,941,962	9,805,892
2007	53,250,481	64,651,050	(11,400,569)	9,793,692	(1,606,877)	26,563,075	24,956,198
2006	47,861,088	59,528,094	(11,667,006)	7,242,280	(4,424,726)	15,401,580	10,976,854

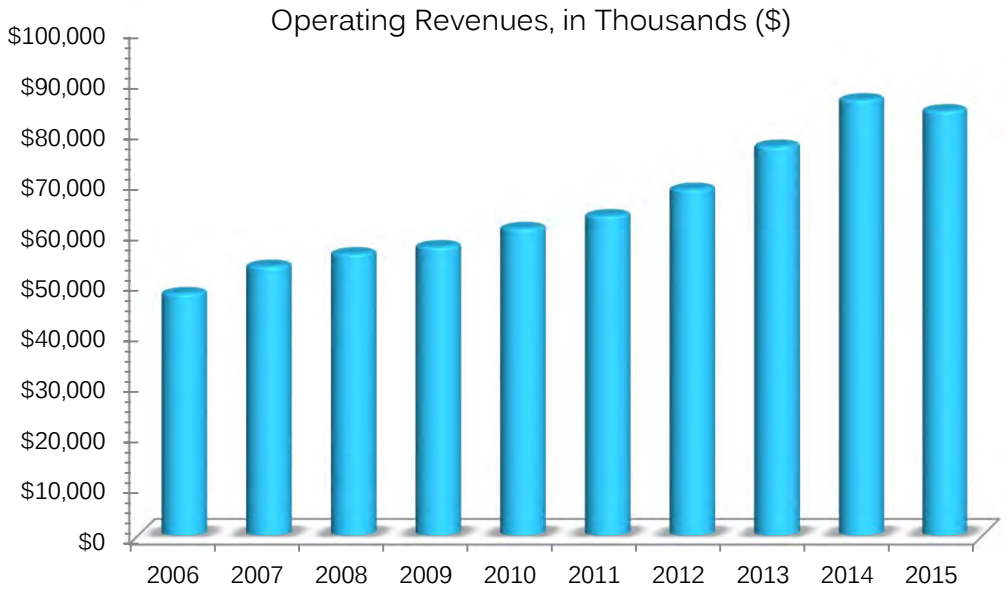
Changes in Net Position, in Thousands ($)



Source: *Otay Water District*

Operating Revenues by Source - Last Ten Fiscal Years

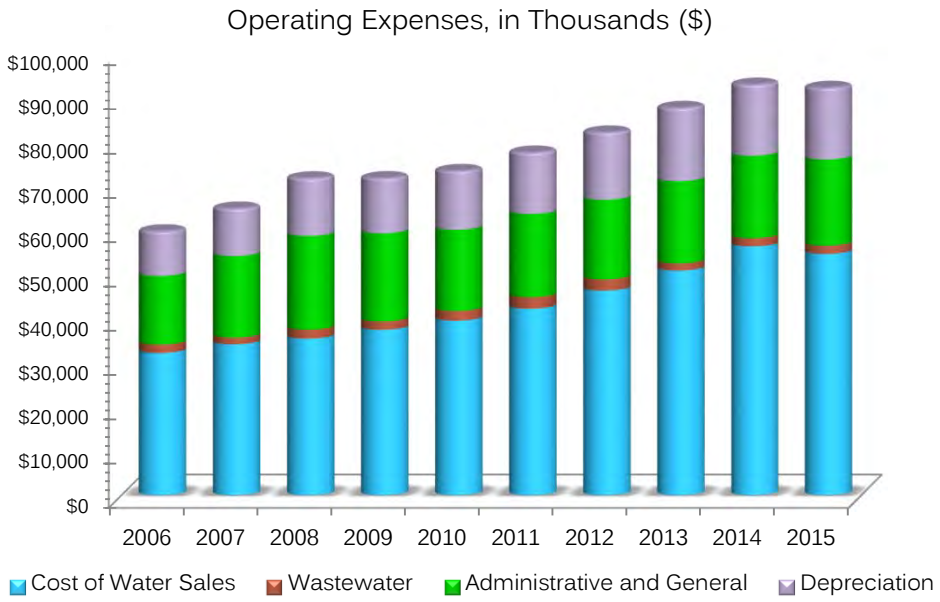
Fiscal Year	Water Sales	Wastewater	Connection and Other Fees	Total	Percent Change
2015	$ 79,135,000	$ 3,044,158	$ 1,686,249	$ 83,865,407	-2.5%
2014	81,287,164	2,791,523	1,946,886	86,025,573	11.9%
2013	72,187,081	2,625,087	2,069,220	76,881,388	12.4%
2012	63,830,272	2,400,313	2,169,764	68,400,349	8.2%
2011	58,293,184	2,396,385	2,514,647	63,204,216	4.1%
2010	56,249,816	2,299,585	2,137,280	60,686,681	6.3%
2009	52,428,648	2,182,429	2,492,234	57,103,311	2.5%
2008	50,808,825	2,386,285	2,519,735	55,714,845	4.6%
2007	48,605,606	2,604,431	2,040,444	53,250,481	11.3%
2006	43,755,610	2,331,094	1,774,384	47,861,088	10.4%



Source: *Otay Water District*

Operating Expenses by Function - Last Ten Fiscal Years

Fiscal Year	Cost of Water Sales	Wastewater	Administrative and General	Depreciation	Total	Percent Change
2015	$ 54,364,884	$ 1,866,711	$ 19,437,141	$ 16,194,992	$ 91,863,728	-0.8%
2014	56,068,147	1,834,465	18,608,603	16,055,808	92,567,023	6.0%
2013	50,600,551	1,638,354	18,550,811	16,545,622	87,335,338	6.8%
2012	46,106,403	2,547,929	17,926,430	15,214,704	81,795,466	5.9%
2011	42,029,819	2,592,823	18,763,380	13,880,206	77,266,228	5.7%
2010	39,338,495	2,169,988	18,320,362	13,297,497	73,126,342	2.3%
2009	37,252,482	1,890,804	19,888,161	12,475,714	71,507,161	0.05%
2008	35,296,002	2,009,876	21,127,922	13,040,572	71,474,372	10.6%
2007	33,994,841	1,508,672	18,418,441	10,729,096	64,651,050	8.6%
2006	32,043,395	1,899,957	15,477,287	10,107,455	59,528,094	5.5%

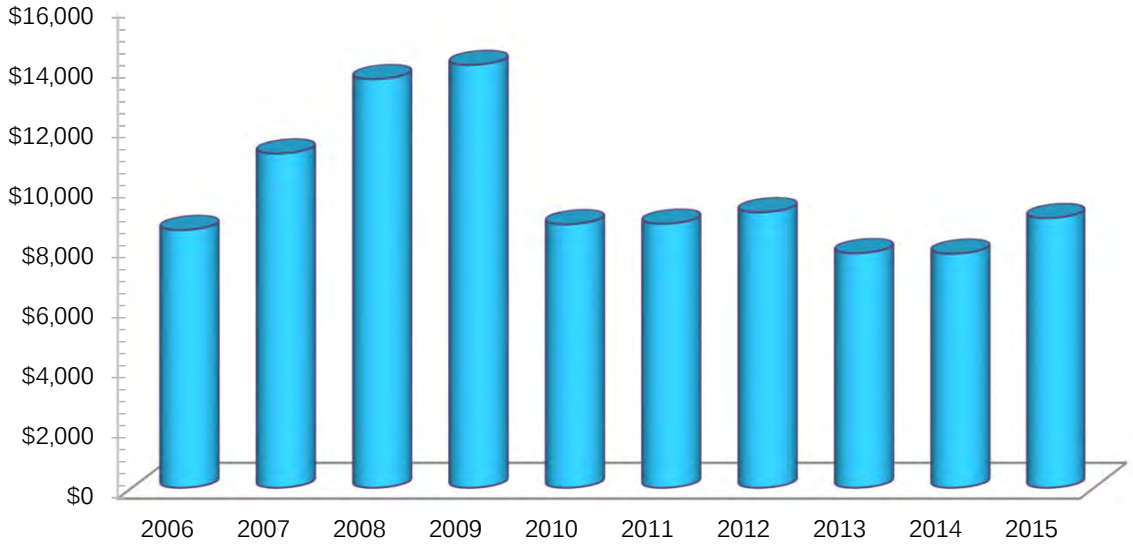


Source: *Otay Water District*

Non-Operating Revenues by Source - Last Ten Fiscal Years

Fiscal Year	Investment Earnings	Taxes and Assessments	Availability Charges	Rents and Leases	Miscellaneous	Total	Percent Change
2015	$ 656,925	$ 3,856,276	$ 685,555	$ 1,232,920	$ 2,521,078	$ 8,952,754	15.2%
2014	522,286	3,537,162	729,961	1,317,736	1,661,992	7,769,137	-0.2%
2013	22,155	3,545,595	707,881	1,276,914	2,233,804	7,786,349	-14.9%
2012	436,596	3,502,155	696,863	1,222,060	3,288,111	9,145,785	4.4%
2011	854,440	3,895,938	653,012	1,185,573	2,174,690	8,763,653	0.2%
2010	1,323,844	3,973,328	670,784	1,083,988	1,693,942	8,745,886	-37.7%
2009	2,252,335	4,586,823	625,065	1,029,506	5,545,344 [1]	14,039,073	3.5%
2008	4,538,791	4,591,023	744,722	962,929	2,729,277	13,566,742	22.3%
2007	4,416,342	4,151,956	715,664	914,403	897,216	11,095,581	29.7%
2006	3,188,645	2,779,635	609,099	806,014	1,172,618	8,556,011	4.1%

Non-Operating Revenues, in Thousands ($)

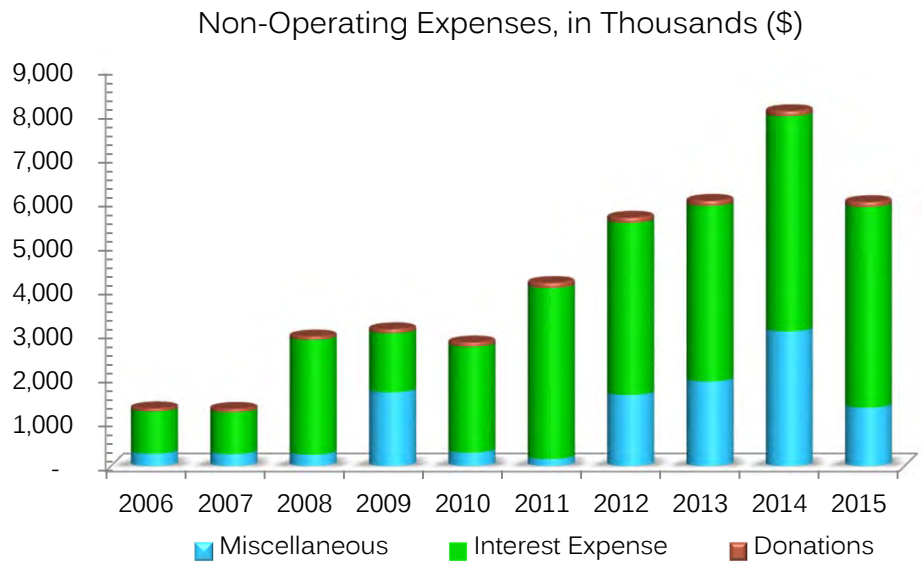


[1] The District received a large, one-time legal settlement as a member of a class action lawsuit in Fiscal Year 2009.

Source: *Otay Water District*

Non-Operating Expenses by Function - Last Ten Fiscal Years

Fiscal Year	Donations [1]	Interest Expense	Miscellaneous	Total	Percent Change
2015	$ 117,462	$ 4,545,530	$ 1,324,155	$ 5,987,147	-25.6%
2014	119,687	4,872,060	3,054,447 [3]	8,046,194	33.8%
2013	120,684	3,977,538	1,917,389	6,015,611	6.8%
2012	121,617	3,899,927	1,612,914 [2]	5,634,458	35.6%
2011	120,648	3,877,531	158,337	4,156,516	48.0%
2010	100,240	2,404,530	303,541	2,808,311	-9.6%
2009	95,270	1,340,110	1,671,597	3,106,977	5.6%
2008	80,541	2,601,252	261,492	2,943,285	126.1%
2007	80,000	950,479	271,410	1,301,889	-0.9%
2006	75,000	959,225	279,506	1,313,731	-32.6%



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

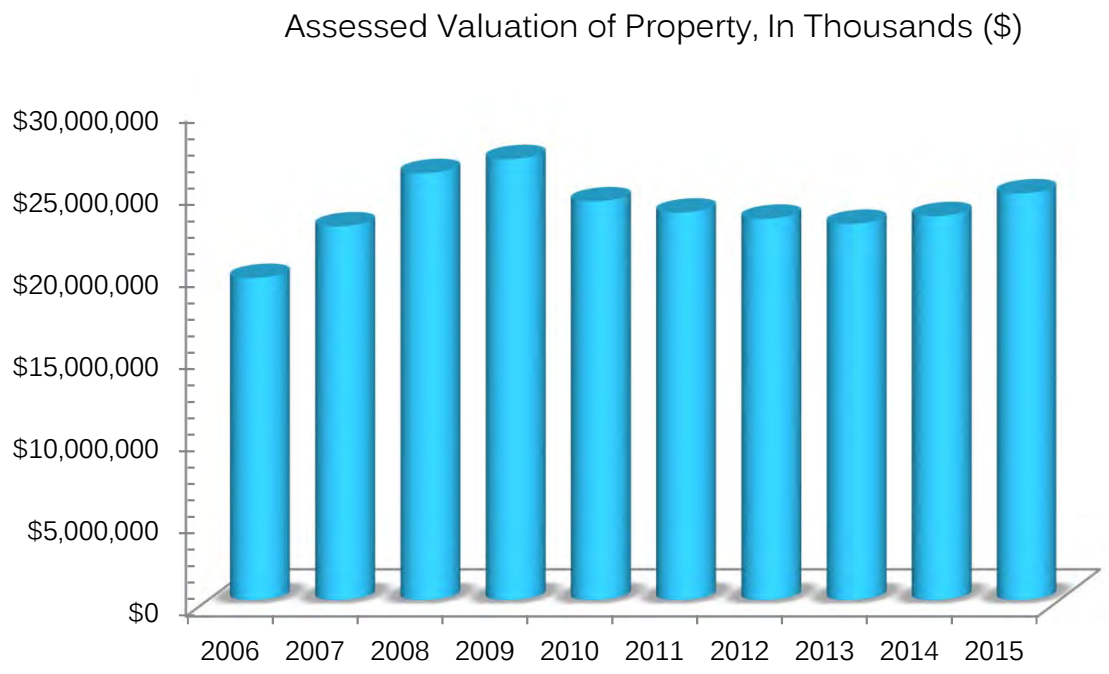
[2] Miscellaneous expense includes $1.4 million of non-capitalizable expenses with corresponding miscellaneous revenues. In prior years these expenses and revenues were presented, net of revenue, in miscellaneous revenues.

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

Source: *Otay Water District*

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

Fiscal Year	Real	Personal	Total	Total Direct Tax Rate
2015	$ 24,109,906,912	$ 572,400,598	$ 24,682,307,510	1.00%
2014	22,739,584,104	564,518,965	23,304,103,069	1.00%
2013	22,253,255,369	583,080,854	22,836,336,223	1.00%
2012	22,556,489,450	588,978,085	23,145,467,535	1.00%
2011	22,997,752,952	521,424,896	23,519,177,848	1.00%
2010	23,671,616,006	527,200,694	24,198,816,700	1.00%
2009	26,269,630,081	482,465,611	26,752,095,692	1.00%
2008	25,333,821,005	568,975,196	25,902,796,201	1.00%
2007	22,166,251,649	518,441,943	22,684,693,592	1.00%
2006	19,204,029,184	361,636,280	19,565,665,464	1.00%

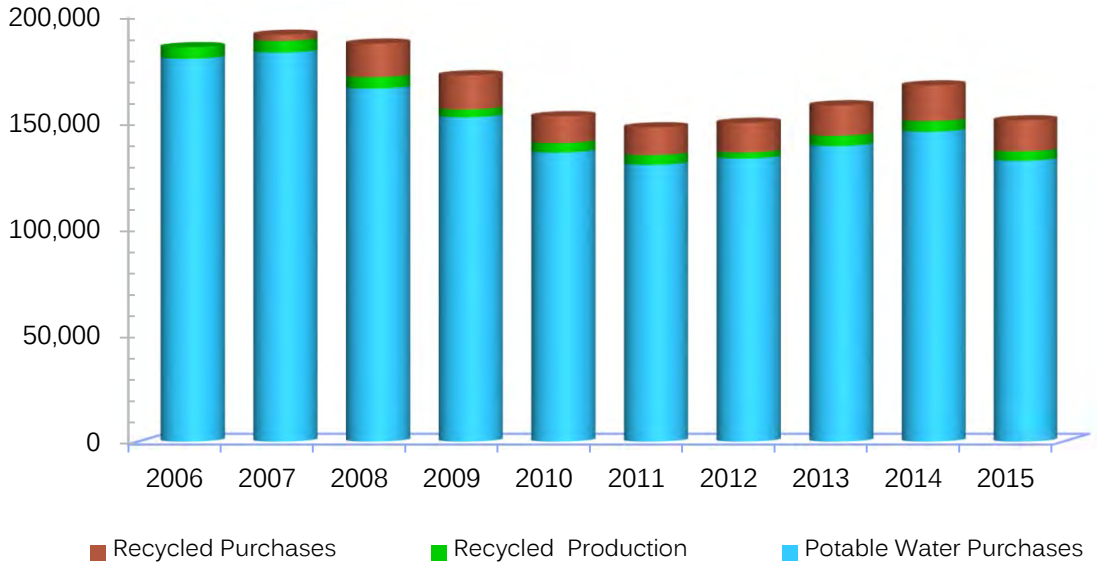


Source: *County of San Diego Auditor and Controller*

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

	Potable Water [1]		Recycled Water [1]		
Fiscal	Per 100 Cubic Feet		Per 100 Cubic Feet		
Year	Purchases	Sales	Production	Purchases	Sales
2015	13,198,201	12,744,425	443,090	1,447,737	1,841,956
2014	14,554,049	13,720,119	503,120	1,664,630	2,068,330
2013	13,888,496	13,189,042	486,610	1,415,610	1,878,950
2012	13,304,444	12,510,894	285,190	1,381,300	1,652,833
2011	13,007,365	12,363,608	461,060	1,293,310	1,676,775
2010	13,580,004	12,749,799	449,771	1,250,873	1,774,563
2009	15,233,498	14,923,843	367,461	1,593,621	1,991,737
2008	16,572,271	15,575,662	538,227	1,566,148	2,001,137
2007	18,255,735	16,059,464	550,206	284,499 [2]	1,920,287
2006	17,972,146	14,723,988	537,400	-	1,722,057

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



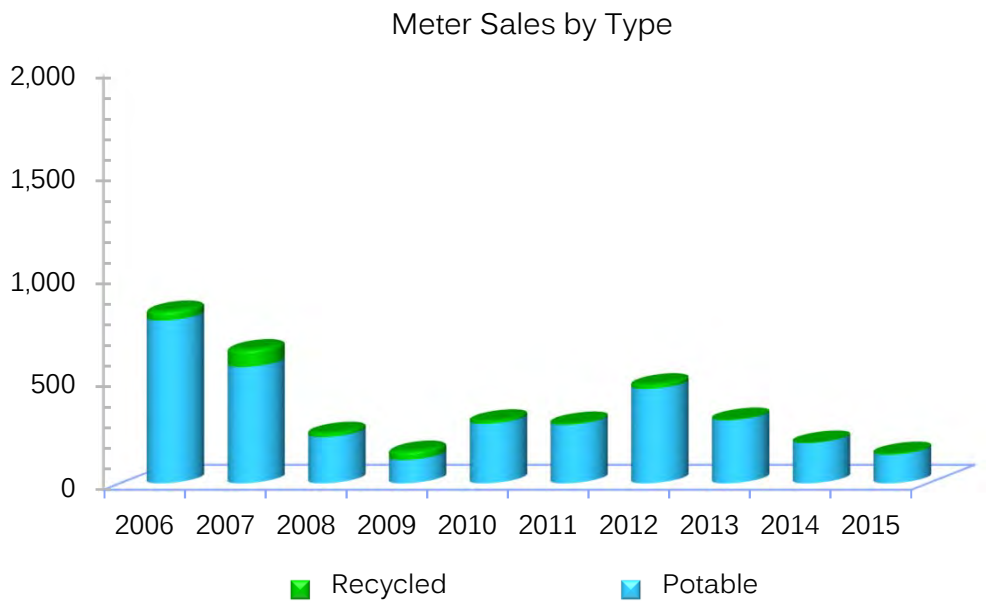
[1] Rates are not presented on this schedule because the District has multiple water rates for various meter sizes and customer classes and cannot represent rates in a meaningful manner with a weighted average rate. See Water and Sewer rates on pages 77-79 for meter sizes and their corresponding water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

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

Source: *Otay Water District*

Meter Sales by Type - Last Ten Fiscal Years

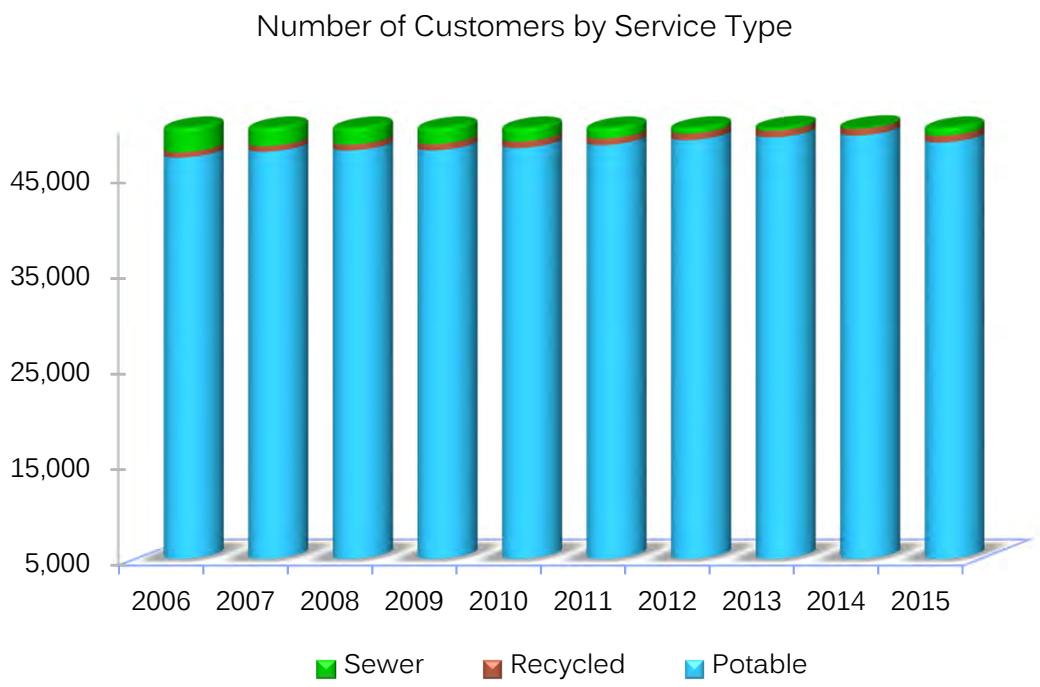
Fiscal Year	Potable	Recycled	Total
2015	138	8	146
2014	195	3	198
2013	305	5	310
2012	457	24	481
2011	283	9	292
2010	288	17	305
2009	113	44	157
2008	224	22	246
2007	563	85	648
2006	788	47	835



Source: *Otay Water District*

Number of Customers by Service Type - Last Ten Fiscal Years

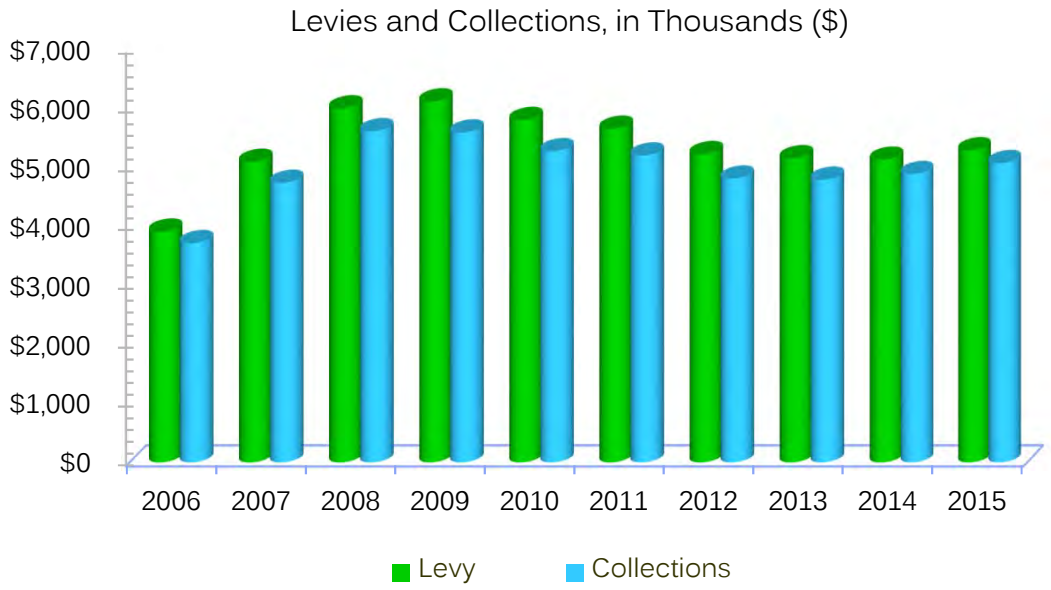
Fiscal Year	Potable	Recycled	Sewer	Total
2015	48,425	705	4,679	53,809
2014	49,148	702	4,657	54,507
2013	48,962	704	4,655	54,321
2012	48,665	696	4,655	54,016
2011	48,154	685	4,655	53,494
2010	47,845	683	4,646	53,174
2009	47,608	671	4,638	52,917
2008	47,591	626	4,627	52,844
2007	47,461	588	4,567	52,616
2006	46,851	558	4,571	51,980



Source: *Otay Water District*

Property Tax Levies and Collections - Last Ten Fiscal Years

Fiscal Year	1% Property Tax	Special Assessments	Total Levies	Total Collections [1]	End of the Year Percent Collected
2015	$ 3,276,296	$ 2,012,420	$ 5,288,716	$ 5,071,336	96%
2014	3,032,618	2,096,409	5,129,027	4,885,718	95%
2013	3,014,180	2,139,415	5,153,595	4,790,286	93%
2012	3,115,841	2,108,269	5,224,110	4,809,293	92%
2011	3,156,446	2,497,117	5,653,563	5,199,833	92%
2010	3,622,861	2,179,270	5,802,131	5,272,728	91%
2009	3,661,961	2,455,211	6,117,172	5,591,554	91%
2008	3,437,810	2,561,574	5,999,384	5,612,821	94%
2007	2,689,068	2,403,275	5,092,343	4,735,879	93%
2006	1,420,049	2,489,123	3,909,172	3,713,714	95%



[1] Levies and collections include Current Secured, Current Unsecured, and Supplemental Homeowners Exemptions.

Source: *Otay Water District*

Water Fixed Rates - Last Ten Fiscal Years

Fixed Rates	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
System Fee by Meter Size										
Residential										
3/4"	$ 19.39	$ 16.19	$ 16.74	$ 14.58	$ 14.58	$ 14.58	$ 13.83	$ 12.30	$ 11.30	$ 10.25
1"	27.39	22.87	21.26	18.52	18.52	18.52	17.56	19.80	18.15	16.50
1.5"	47.40	39.58	32.57	28.37	28.37	28.37	26.90	51.95	35.75	32.50
Non-Residential & Others										
3/4"	19.39	16.19	16.74	14.58	14.58	14.58	13.83	24.00	22.00	20.00
1"	27.39	22.87	21.26	18.52	18.52	18.52	17.56	36.95	33.90	30.80
1.5"	47.40	39.58	32.57	28.37	28.37	28.37	26.90	51.95	47.50	43.30
2"	71.39	59.62	46.13	40.18	40.18	40.18	38.10	64.95	59.60	54.20
3"	135.41	113.08	82.29	71.68	71.68	71.68	67.98	104.55	95.90	87.20
4"	207.43	173.22	122.99	107.13	107.13	107.13	101.59	119.70	109.80	99.80
6"	407.50	340.29	236.02	205.59	205.59	205.59	194.96	239.20	219.45	199.50
8"	647.56	540.76	371.64	323.73	323.73	323.73	307.00	-	-	-
10"	927.63	774.64	529.88	461.57	461.57	461.57	437.71	456.60	418.90	380.50
CWA and MWD Pass-through charges by Meter Size										
Residential										
3/4"	13.67	14.45	13.28	14.01	11.82	9.77	4.33	3.85	3.55	2.85
1"	25.35	26.79	22.12	23.33	19.69	16.28	6.91	6.15	5.65	4.55
1.5"	57.35	60.61	44.31	46.74	39.44	32.61	13.04	11.60	10.65	8.55
Non-Residential & Others										
3/4"	13.67	14.45	13.28	14.01	11.82	9.77	4.33	3.85	3.55	2.85
1"	25.35	26.79	22.12	23.33	19.69	16.28	6.91	6.15	5.65	4.55
1.5"	57.35	60.61	44.31	46.74	39.44	32.61	13.04	11.60	10.65	8.55
2"	97.53	103.08	70.85	74.74	63.07	52.15	22.54	20.05	18.45	14.80
3"	207.44	219.23	141.71	149.48	126.14	104.30	41.53	36.95	34.05	27.35
4"	332.20	351.09	221.43	233.58	197.17	162.98	70.98	63.15	58.20	46.75
6"	680.02	718.69	442.80	467.09	394.17	325.92	129.82	115.50	106.45	85.50
8"	1,098.15	1,160.59	708.53	747.39	630.71	521.51	374.62	-	-	-
10"	1,580.67	1,670.55	1,015.06	1,070.74	903.58	749.61	538.52	300.30	276.75	222.30
Fire Services										
All Types				30.11	30.11	30.11	28.55	25.40	23.30	21.20
Lower than 4 inch	25.32	21.14	34.57							
Higher than 4 inch	34.12	28.49	34.57							

Source: *Otay Water District*

Water Variable Rates - Last Ten Fiscal Years

Usage Rate [1]	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Residential										
Tier 1	$ 1.95	$ 1.86	$ 1.73	$ 1.58	$ 1.49	$ 1.35	$ 1.12	$ 1.12	$ 1.08	$ 1.05
Tier 2	3.04	2.90	2.69	2.45	2.31	2.10	1.74	1.85	1.78	1.73
Tier 3	3.95	3.77	3.50	3.19	3.00	2.73	2.26	2.01	1.94	1.88
Tier 4	6.08	5.80	5.39	4.92	4.63	4.21	3.48	2.94	2.83	2.75
Master Meter										
Tier 1	3.00	2.86	2.66	2.43	2.29	2.08	1.72	1.85	1.78	1.73
Tier 2	3.89	3.71	3.45	3.15	2.97	2.70	2.23	2.01	1.94	1.88
Tier 3	6.00	5.73	5.32	4.85	4.57	4.15	3.43	2.94	2.83	2.75
Public Agency & Commercial										
Publicly-Owned [2]								2.06	1.99	1.93
Commercial & Others [3]								1.98	1.91	1.85
Government Fee [2]	0.32	0.31	0.29	0.29	0.29	0.29	0.29	0.28	-	-
Tier 1	3.21	3.06	2.84	2.59	2.44	2.22	1.84			
Tier 2	3.26	3.14	2.92	2.66	2.50	2.27	1.88			
Tier 3	3.31	3.19	2.96	2.70	2.54	2.31	1.91			
Landscape, Agricultural & Construction										
Tier 1	4.37	4.17	3.87	3.53	3.32	3.02	2.50			
Tier 2	4.42	4.25	3.95	3.60	3.39	3.08	2.55			
Tier 3	4.47	4.32	4.01	3.66	3.45	3.14	2.60			
Recycled										
Recycled (Commercial)								1.67	1.65	1.57
Recycled (Publicly-Owned) [2]								1.75	1.73	1.65
Tier 1	3.73	3.56	3.31	3.02	2.84	2.58	2.13			
Tier 2	3.79	3.61	3.35	3.06	2.88	2.62	2.17			
Tier 3	3.84	3.68	3.42	3.12	2.94	2.67	2.21			
Energy Pumping Fee										
Per 100 cubic feet [4]	0.050	0.048	0.042	0.045	0.044	0.038	0.034	0.034	0.032	0.032

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

[2] An additional $.32 per unit was charged to governmental customers in lieu of tax revenues. In the past, an additional $.08 is added to the publicly-owned companies water rate.

[3] Others include agricultural and temporary meters.

[4] Water customers are charged an energy pumping charge based on the quantity of water used and the elevation to which the water has been lifted to provide service. The energy pumping charge is the rate of $.050 per 100 cubic feet of water for each 100 feet of lift above the base elevation of 450 feet. All water customers are in one of twenty-nine zones based on elevation.

Source: *Otay Water District*

Sewer Variable and Fixed Rates - Last Ten Fiscal Years

Description	2015	2014	2013**	2012	2011	2010	2009	2008*	2007	2006
Usage Fee										
Residential										
1 Unit	$ 2.46	$ 2.46	$ 2.35	$ 1.77	$ 1.67	$ 1.56	$ 1.47	$ 1.41	-	-
Non-Residential										
Low Strength	2.46	2.46	2.35							
Medium Strength	3.53	3.53	3.37							
High Strength	5.63	5.63	5.37							
Sewer Rate Per ASU				41.75	39.39	36.88	34.79	33.26	$ 32.70	$ 30.90
Fixed Rates										
Residential										
3/4"	15.89	15.89	14.38	12.26	11.57	10.80	10.20	9.75		
1"	15.89	15.89	14.38	17.88	16.87	15.75	14.90	14.25		
Non-Residential										
3/4"	27.07	27.07	25.83							
1"	39.86	39.86	38.03							
1.5"	71.82	71.82	68.53							
2"	110.17	110.17	105.12							
3"	199.66	199.66	190.52							
4"	327.51	327.51	312.51							
6"	647.12	647.12	617.48							
8"	1,030.67	1,030.67	983.46							
10"	1,478.12	1,478.12	1,410.42							

Calculation of Monthly Residential Sewer Billing:

*Bill calculation prior to calendar year 2008: Sewer Rate per ASU [9]

Bill calculation beginning calendar year 2008: (Winter Average [8] x .85 [2] x Usage Fee) + Fixed Fee [7]

Calculation of Monthly Non-Residential Sewer Billing:

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

Bill calculation beginning calendar year 2013: ((Average Annual Usage [5] x .85 [2]/250 [3] x Usage Fee [6])) + Fixed Fee [7]

Footnotes:

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

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

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

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

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

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

[7] The fixed rate is based on the size of the water meter.

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

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

Source: *Otay Water District*

Ten Largest Customers - Current Year and Nine Years Ago

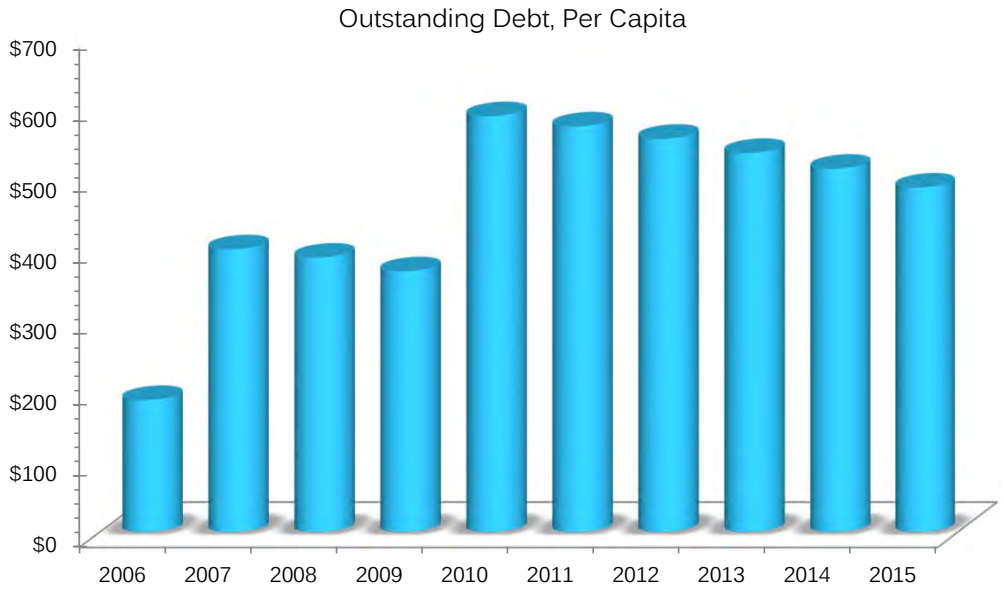
FISCAL YEAR 2015					
	Customer Name	Customer Type		Annual Revenues	% of Water Sales
1.	City of Chula Vista	Publicly Owned	$	3,508,939	4.4%
2.	County of San Diego	Publicly Owned		950,461	1.2%
3.	State of California	Publicly Owned		833,907	1.1%
4.	Eastlake III Community	Commercial		781,004	1.0%
5.	Steele Canyon Golf Club LLC	Commercial		735,908	0.9%
6.	Chula Vista School District	Publicly Owned		541,036	0.7%
7.	Sweetwater School District	Publicly Owned		379,353	0.5%
8.	SANDAG	Commercial		376,714	0.5%
9.	Eastlake 1 HOA	Commercial		364,252	0.5%
10.	Rolling Hills Ranch Comm Assoc	Commercial		303,611	0.4%
	Total Top Ten Customers		$	8,775,185	11.1%
	Other Customers			70,359,815	88.9%
	Total Water Sales		$	79,135,000	100.0%

FISCAL YEAR 2006					
	Customer Name	Customer Type		Annual Revenues	% of Water Sales
1.	City of Chula Vista	Publicly Owned	$	1,320,142	3.0%
2.	State of California	Publicly Owned		948,695	2.2%
3.	McMillin	Commercial		666,770	1.5%
4.	County of San Diego	Publicly Owned		665,694	1.5%
5.	Eastlake III Community	Commercial		502,189	1.1%
6.	Country Hills Apartments	Commercial		461,984	1.1%
7.	Eastlake 1 HOA	Commercial		417,029	1.0%
8.	Steele Canyon Golf Club LLC	Commercial		319,216	0.7%
9.	California Bank & Trust	Commercial		284,783	0.7%
10.	The EastLake Company	Commercial		214,593	0.5%
	Total Top Ten Customers		$	5,801,095	13.3%
	Other Customers			37,954,515	86.7%
	Total Water Sales		$	43,755,610	100.0%

Source: Otay Water District

Ratios of Outstanding Debt by Type - Last Ten Fiscal Years

Fiscal Year	Population Estimate	GO Bond	COPS	Revenue Bonds	Notes	Capital Leases	Total	Per Capita	As a Share of Personal Income [1]
2015	217,000	$ 5,267,208	$44,990,103	$54,887,993	$ -	$ -	$ 105,145,304	$ 484.54	0.86%
2014	213,000	5,833,563	46,475,314	56,508,490	-	-	108,817,367	510.88	0.99%
2013	211,000	6,384,918	47,920,525 [2]	58,158,987	-	-	112,464,430	533.01	1.06%
2012	208,500	6,921,271	58,023,740	50,321,421	-	-	115,266,432	552.84	1.14%
2011	206,500	6,803,577	59,715,531	51,180,822	6,010	-	117,705,940	570.00	1.19%
2010	206,000	7,283,127	61,489,612	51,255,224	359,744	-	120,387,707	584.41	1.28%
2009	195,000	7,726,575	63,213,693	-	701,516	-	71,641,784	367.39	0.83%
2008	191,500	8,093,302	64,892,774	-	1,031,730	-	74,017,806	386.52	0.85%
2007	190,000	8,445,029	65,851,790	-	1,350,778	-	75,647,597	398.15	0.89%
2006	189,000	8,776,755	24,909,352	-	1,659,037	51,589	35,396,733	187.28	0.44%



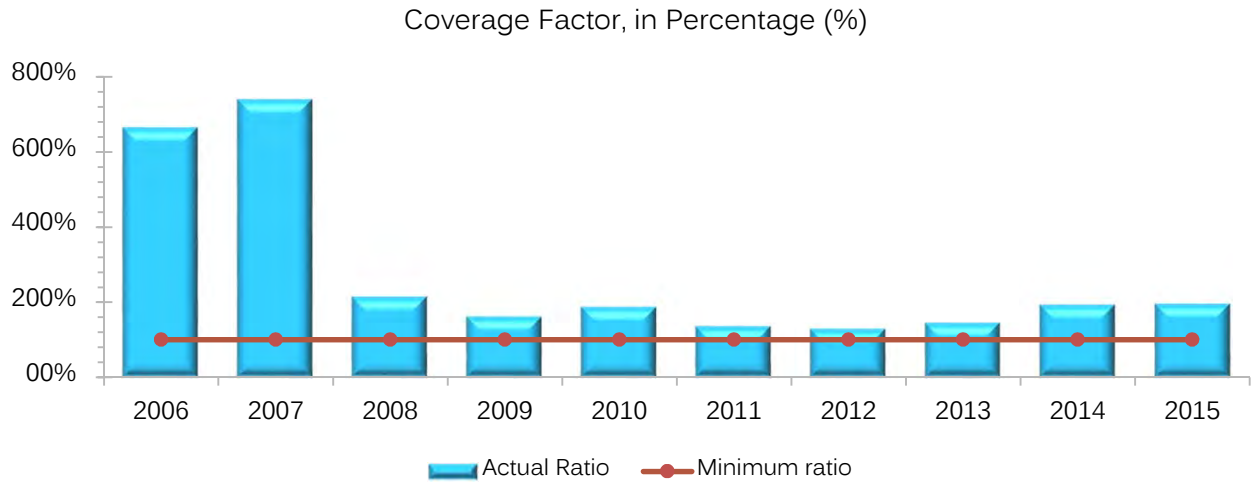
[1] See the Demographics and Economic Statistics schedule on page 86 for personal income data.

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

Source: *Otay Water District*

Pledged Revenue Coverage - Last Ten Fiscal Years

Fiscal Year	Adjusted Revenues [1]	Adjusted Operating Expenses [2]	Net Revenues Available for Debt Service	Debt Service Requirements [4]			Coverage Factor [3]
				Principal	Interest	Total	
2015	$89,646,845	$74,320,591	$15,326,254	$2,945,000	$4,767,618	$7,712,618	199%
2014	90,948,021	75,575,679	15,372,342	2,935,000	4,895,622	7,830,622	196%
2013	81,778,447	70,228,987	11,549,460	2,800,000	4,988,640	7,788,640	148%
2012	74,484,691	64,028,686	10,456,005	1,850,000	6,050,746	7,900,746	132%
2011	69,653,627	60,117,245	9,536,382	1,795,000	5,084,450	6,879,450	139%
2010	65,573,058	57,084,904	8,488,154	1,745,000	2,720,258	4,465,258	190%
2009	63,739,773	57,076,567	6,663,207	1,700,000	2,342,048	4,042,048	165%
2008	63,732,275	56,420,286	7,311,989	800,000	2,567,884	3,367,884	217%
2007	69,442,301	52,413,282	17,029,019	790,000	1,513,834	2,303,834	739%
2006	58,572,428	47,520,682	11,051,746	745,000	917,790	1,662,790	665%



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

[2] Adjusted operating expenses exclude sewer expenses and depreciation expense.

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

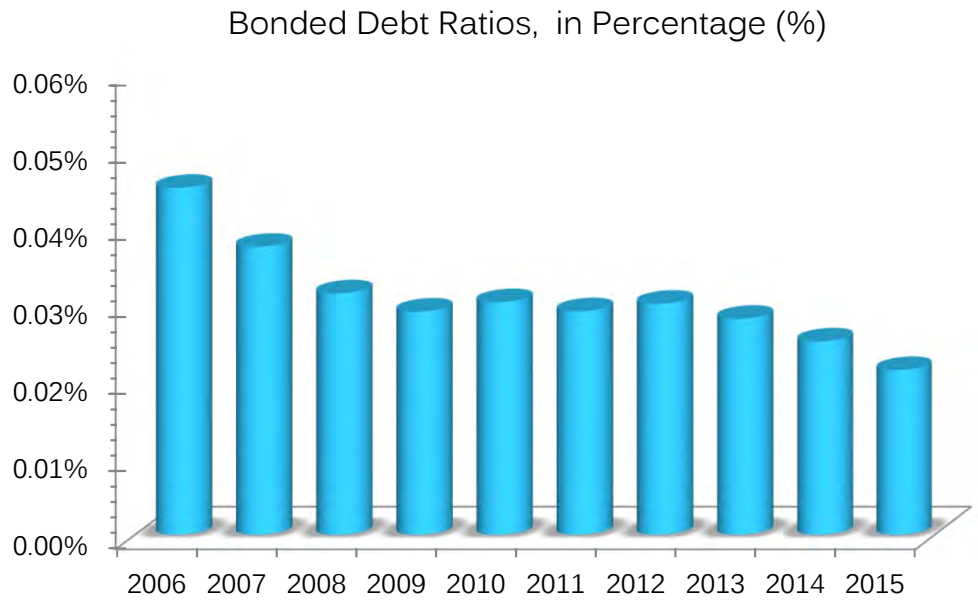
[4] Pledge debts are Certificates of Participation (COPS) and Revenue Bonds.

***Source**: Otay Water District*

Ratios of General Bonded Debt Outstanding -

Last Ten Fiscal Years

Fiscal Year	Population Estimate	Assessed Valuation	Net Bonded Debt	Net Bonded Debt to Assessed Valuation	Net Bonded Debt Per Capita
2015	217,000	$ 24,682,307,510	$ 5,267,208	0.02%	24.27
2014	213,000	23,304,103,069	5,833,563	0.03%	27.39
2013	211,000	22,836,336,223	6,384,918	0.03%	30.26
2012	208,500	23,145,467,535	6,921,271	0.03%	33.20
2011	206,500	23,519,177,848	6,803,577	0.03%	32.95
2010	206,000	24,198,816,700	7,283,127	0.03%	35.35
2009	195,000	26,752,095,692	7,726,575	0.03%	39.62
2008	191,500	25,902,796,201	8,093,302	0.03%	42.26
2007	190,000	22,684,693,592	8,449,025	0.04%	44.47
2006	189,000	19,565,665,464	8,776,755	0.04%	46.44



Source: *Otay Water District*

Computation of Direct and Overlapping Bonded Debt

June 30, 2015

2014-15 Assessed Valuation:	$24,682,307,510
Redevelopment Incremental Valuation:	267,915,708
Total Overlapping Tax Increment Debt	1.31%

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/15	% Applicable (1)	District's Share of Debt 6/30/15
Metropolitan Water District	$ 110,420,000	1.064%	$ 1,174,869
Otay Water District Improvement District No. 27	**5,150,000**	**100.**	**5,150,000**
Grossmont-Cuyamaca Community College District	245,912,686	15.317	37,666,446
Southwestern Community College District	222,049,345	40.758	90,502,872
Grossmont Union High School District	500,541,773	15.725	78,710,194
Sweetwater Union High School District	336,119,415	48.670	163,589,319
Chula Vista City School District and School Facilities Improvement District	99,830,000	61.013 & 23.698	44,865,694
San Ysidro School District	135,717,132	49.212	66,789,115
Other School Districts	3,761,571,918	Various	54,537,081
Grossmont Healthcare District	267,413,330	13.938	37,272,070
City of Chula Vista Community Facilities District	177,025,000	100.	177,025,000
Chula Vista City School District Community Facilities Districts	3,830,000	100.	3,830,000
Sweetwater Union High School District Community Facilities Districts	132,150,570	10.894-100.	123,624,282
City 1915 Act Bonds	22,031,000	100.	22,031,000
California Statewide Communities Development Authority			
San Diego County / Venture Community Center Assessment District	717,907	100.	717,907
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			$907,485,849

Ratios to 2014-15 Assessed Valuation:

Direct Debt ($5,150,000) **0.02%**

Total Overlapping Tax and Assessment Debt 3.68%

DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	$351,670,000	5.889%	$ 20,709,846
San Diego County Pension Obligation Bonds	682,615,180	5.889	40,199,208
San Diego Superintendent of Schools Certificates of Participation	14,732,500	5.889	867,597
Otay Water District Certificates of Participation & Revenue Bonds	**98,610,000**	**100.**	**98,610,000**
Grossmont and Southwestern Community College District General Fund Obligations	2,190,000	15.317 & 40.758	607,661
Grossmont Union High School District Certificates of Participation	652,500	15.725	102,606
Sweetwater Union High School District Certificates of Participation	42,165,000	48.670	20,521,706
Chula Vista City School District Certificates of Participation	134,745,000	61.013	82,211,967
San Ysidro School District Certificates of Participation	41,015,125	49.212	20,184,363
Other School District Certificates of Participation	6,475,000	Various	1,587,994
City of Chula Vista Certificates of Participation	117,590,000	69.118	81,275,856
City of San Diego General Fund Obligations	634,010,000	0.855	5,420,786
San Miguel Consolidated Fire Protection District Certificates of Participation	3,895,000	52.269	2,035,878
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			$374,335,468
Less: **Otay Water District Certificates of Participation & Revenue Bonds (100% self-supporting)**			98,610,000
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			$275,725,468
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):	$ 21,050,000	16.680%	$ 3,511,140
TOTAL GROSS DIRECT DEBT			**$ 103,760,000**
TOTAL NET DIRECT DEBT			**$ 5,150,000**
TOTAL OVERLAPPING DEBT			$1,181,572,457
GROSS COMBINED TOTAL DEBT			$1,231,917,457 (2)
NET COMBINED TOTAL DEBT			$1,186,722,457

(1) The percentage of overlapping debt applicable to the district is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the water district divided by the overlapping district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to Adjusted Assessed Valuation:

Gross Total Direct Debt ($50,345,000) **0.20%**

Net Total Direct Debt ($5,150,000) **0.02%**

Gross Combined Total Debt 4.99%

Net Combined Total Debt 4.81%

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

Principal Employers - Current Year and Nine Years Ago

Employer	2015 Employees	2015 Rank	2015 % of Total County Employment	2006 Employees	2006 Rank	2006 % of Total County Employment
State of California	40,100	1	2.74%	38,700	2	2.71%
UC San Diego	28,341	2	1.93%	26,654	3	1.87%
Sharp HealthCare	16,477	3	1.12%	13,175	6	0.92%
Scripps Health	13,717	4	0.94%	10,617	8	0.74%
Qualcomm Inc.	13,700	5	0.93%	-	-	-
City of San Diego	10,584	6	0.72%	12,213	7	0.85%
UC San Diego Health System	7,726	7	0.53%	-	-	-
Kaiser Permanente	7,549	8	0.51%	7,121	9	0.50%
General Atomics (and affiliated companies)	6,714	9	0.46%	-	-	-
San Diego State University	6,042	10	0.41%	-	-	-
Federal Government of State of California[1]	-	-	-	38,900	1	2.72%
San Diego Unified School District[1]	-	-	-	17,914	4	1.25%
County of San Diego[1]	-	-	-	15,687	5	1.10%
US Postal Service, San Diego District	-	-	-	6,968	10	0.49%
Total	150,950		10.29%	187,949		13.15%

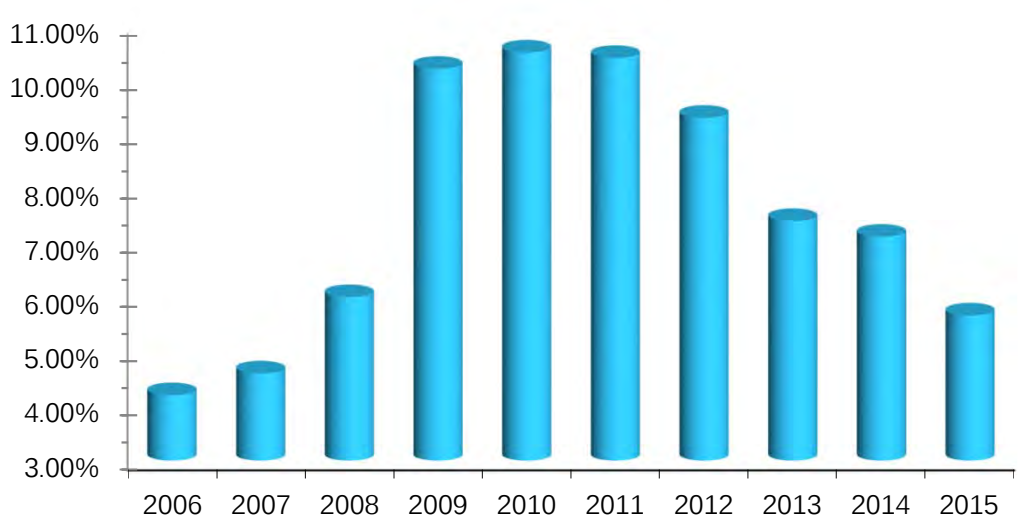
[1] For Fiscal Year ending June 30, 2015, the Federal Government, San Diego Unified School Disrict and County of San Diego declined to participate in the survey organized by the San Diego Business Journal.

Source: *Book of Lists, San Diego Business Journal.*

Demographic and Economic Statistics - Last Ten Fiscal Years

Fiscal Year	Population	Personal Income *(in 000'S)*	Per Capita Personal Income	Unemployment Rate
2015 [1]	3,250,100	$ 181,500,000	$ 56,100	5.66%
2014	3,212,300	172,900,000	54,000	7.11%
2013	3,182,100	161,100,000	50,288	7.40%
2012	3,143,429	154,200,000	48,674	9.30%
2011	3,140,069	149,600,000	47,776	10.40%
2010	3,095,313	137,525,000	45,627	10.50%
2009	3,173,407	134,696,000	44,412	10.20%
2008	3,001,072	143,783,000	45,728	6.00%
2007	2,959,734	131,499,657	44,830	4.60%
2006	2,948,362	126,193,721	42,801	4.20%

Unemployment Rate, in Percentage (%)

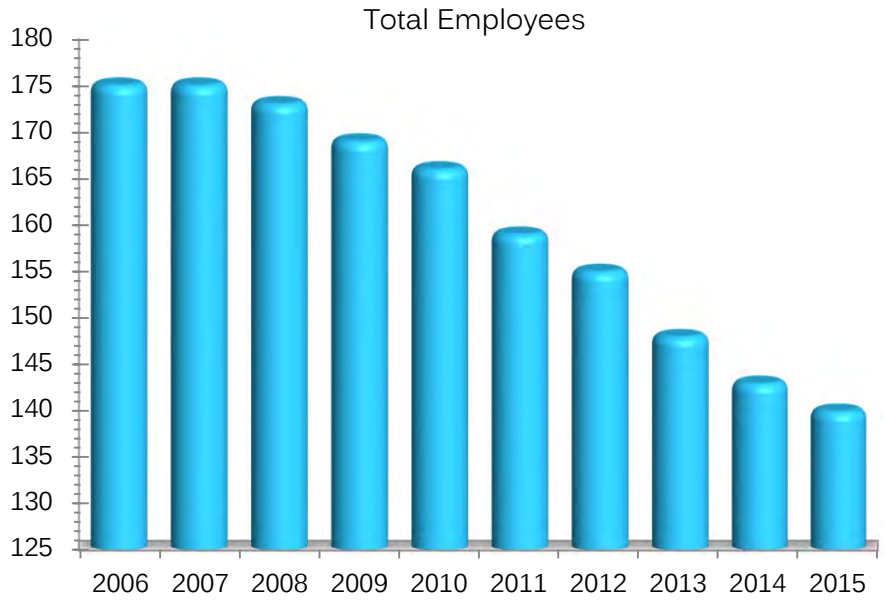


[1] Forecast

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

Number of Employees by Function - Last Ten Fiscal Years

Department	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General Manager	5	5	5	5	6	6	6	6	6	6
Finance	34	29	30	32	35	38	37	36	35	34
Operations/Maintenance	56	61	65	66	66	68	70	71	71	72
Engineering	19	20	19	21	21	21	23	27	31	15
Administrative Services	14	16	17	18	19	20	20	20	19	19
IT and Strategic Planning	12	12	12	13	12	13	13	13	13	12
Development Services [1]	-	-	-	-	-	-	-	-	-	17
Total	140	143	148	155	159	166	169	173	175	175

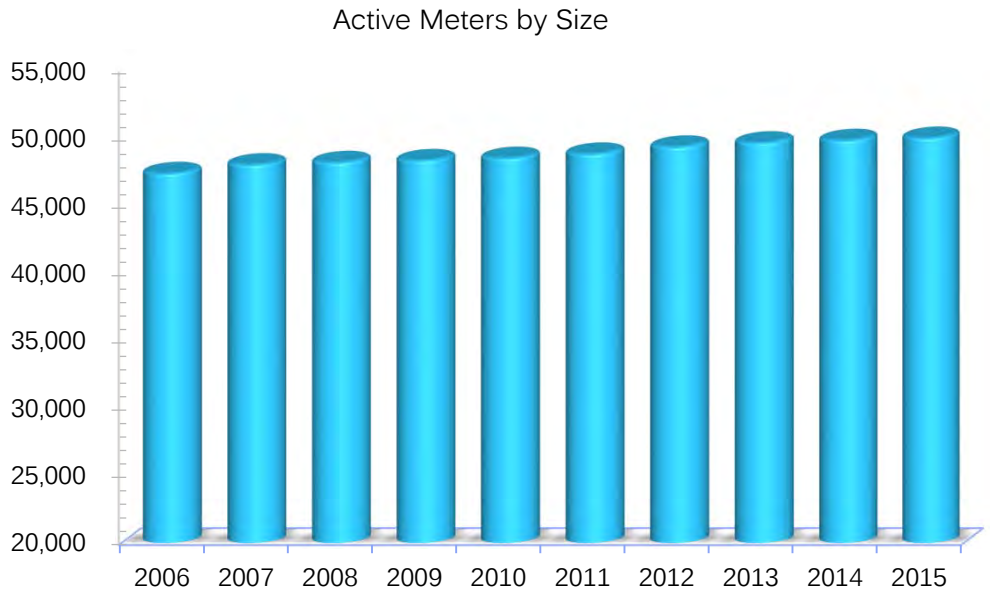


[1] Development Services was broken out from the Engineering and Planning Department in FY 2005 and then re-combined in FY 2007.

***Source** : Otay Water District*

Active Meters by Size - Last Ten Fiscal Years

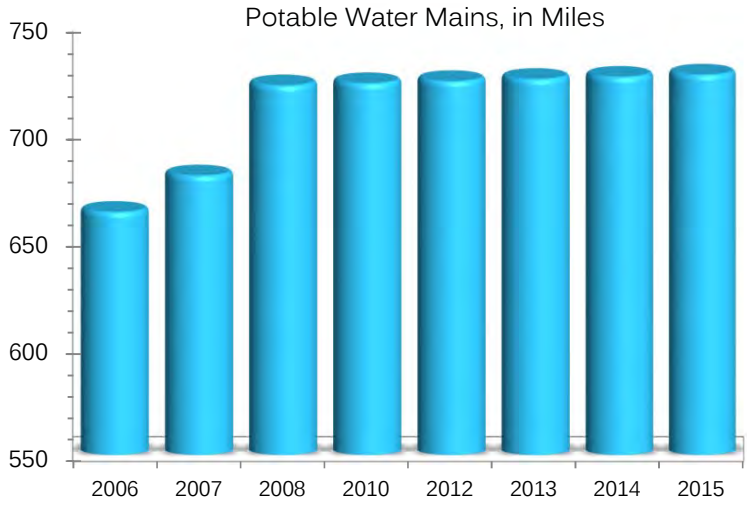
Meter Size	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
3/4" & 5/8"	44,395	44,375	44,354	44,376	44,065	43,815	43,641	43,551	43,544	43,070
1"	2,674	2,557	2,412	2,099	1,881	1,815	1,804	1,747	1,618	1,514
1-1/2"	1,335	1,332	1,333	1,326	1,317	1,317	1,309	1,275	1,242	1,199
2"	1,294	1,293	1,295	1,277	1,278	1,292	1,299	1,283	1,262	1,242
3"	81	77	76	75	75	75	75	76	76	69
4"	207	189	169	180	193	184	202	258	275	277
6"	18	18	18	19	21	22	21	19	24	27
Others	9	9	9	9	9	8	9	10	7	11
Total	50,013	49,850	49,666	49,361	48,839	48,528	48,360	48,219	48,048	47,409
% Change	0.3%	0.4%	0.6%	1.1%	0.6%	0.3%	0.3%	0.4%	1.3%	1.9%
Increase	163	184	305	522	311	168	141	171	639	884



***Source**: Otay Water District*

Operating and Capital Indicators - Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Water System										
Service Area (Square Miles)	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5
Miles of Potable Water Main	727.0	726.0	725.0	724.0	723.0	723.0	722.0	722.0	680.0	663.0
Number of Operational Storage Reservoirs in Service	40	40	40	40	40	40	38	36	37	37
Water Storage Capacity (in Acre-Feet)	668.0	668.0	667.8	670.8	673.8	663.8	655.5	605.5	601.7	601.7
Total Water Connections (No. of Meters in Service)	49,257	49,260	49,150	49,493	49,094	48,662	48,522	48,376	47,615	47,409
Number of Pump Stations	21	21	21	21	21	21	21	21	21	22
Number of Potable Water Valves	20,676	20,460	20,317	20,317	19,522	19,522	19,192	19,131	18,721	18,042
Sewer System										
Miles of Sewer Lines	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	86.2	86.2
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Treatment Plant Capacity (Million Gallons per Day)	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total Flows for Fiscal Year (in Million Gallons)	388	405	422	423	481	474	483	503	514	528
Recycled System										
Miles of Recycled Water Mains	104.0	102.0	99.0	99.0	98.0	98.0	97.0	93.0	83.0	77.6
Number of Pumping Facilities	3	3	3	3	3	3	3	3	3	2
Number of Operational Storage Reservoirs in Service	4	4	4	4	4	4	4	4	4	4
Number of Acre-Feet Storage	134.2	134.2	134.1	134.1	134.1	134.1	133.2	135.0	134.1	97.3
Number of Recycled Water Valves	1,492	1,473	1,430	1,430	1,380	1,380	1,338	1,314	1,245	1,189



Source: *Otay Water District*