

**AMENDED**

OTAY WATER DISTRICT  
FINANCE AND ADMINISTRATION  
COMMITTEE MEETING  
and  
SPECIAL MEETING OF THE BOARD OF DIRECTORS

2554 SWEETWATER SPRINGS BOULEVARD  
SPRING VALLEY, CALIFORNIA  
BOARDROOM

**FRIDAY**  
**October 20, 2006**  
**4:00 P.M.**

This is a District Committee meeting. This meeting is being posted as a special meeting in order to comply with the Brown Act (Government Code Section §54954.2) in the event that a quorum of the Board is present. Items will be deliberated, however, no formal board actions will be taken at this meeting. The committee makes recommendations to the full board for its consideration and formal action.

**AGENDA**

1. ROLL CALL
2. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

**DISCUSSION ITEMS**

3. ACCEPT THE DISTRICT'S COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR), INCLUDING THE INDEPENDENT AUDITORS' UNQUALIFIED OPINION, FOR THE FISCAL YEAR ENDED JUNE 30, 2006 (BEACHEM) [10 minutes]
4. INFORMATIONAL ITEM TO ADVISE THE BOARD OF THE NEED TO HOLD A PUBLIC HEARING IN JANUARY 2007 TO RECEIVE PUBLIC COMMENT ON THE PENDING RATE INCREASES (STEVENS) [15 minutes]

**RECESS TO CLOSED SESSION**

1. POTENTIAL LITIGATION (GOVERNMENT CODE §54956.9)

ONE (1) NEW CASE

**RETURN TO OPEN SESSION**

5. ADJOURNMENT

All items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

If you have any disability which would require accommodation in order to enable you to participate in this meeting, please call the District Secretary at 670-2280 at least 24 hours prior to the meeting.

#### Certification of Posting

I certify that on October 18, 2006 I posted a copy of the foregoing agenda near the regular meeting place of the Board of Directors of Otay Water District, said time being at least 24 hours in advance of the meeting of the Board of Directors (Government Code Section §54954.2).

Executed at Spring Valley, California on October 18, 2006.

  
\_\_\_\_\_  
Susan Cruz, District Secretary



# AGENDA ITEM 3

## STAFF REPORT

|                             |  |               |                  |
|-----------------------------|--|---------------|------------------|
| TYPE MEETING:               | Regular Board  | MEETING DATE: | November 1, 2006 |
| SUBMITTED BY:               | James Cudlip, Finance Manager  | W.O./G.F. NO: | DIV. NO. All     |
| APPROVED BY:<br>(Chief)     | Joseph R. Beachem, <i>JRB</i><br>Chief Financial Officer   |               |                  |
| APPROVED BY:<br>(Asst. GM): | German Alvarez, Assistant General Manager <i>GA</i>  |               |                  |
| SUBJECT:                    | Accept the District's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2006 |               |                  |

### GENERAL MANAGER'S RECOMMENDATION:

That the Board accepts the District's Comprehensive Annual Financial Report (CAFR), including the Independent Auditors' unqualified opinion, for the Fiscal Year ended June 30, 2006.

### COMMITTEE ACTION: \_\_\_\_\_

See Attachment A.

### PURPOSE:

To inform the Board of the significant financial events which occurred during the Fiscal Year ended June 30, 2006 as reflected in the Comprehensive Annual Financial Report.

### ANALYSIS:

Teaman, Ramirez and Smith, Inc., performed the audit and found that, in all material respects, the financial statements correctly represent the financial position of the District. They found no material errors or weaknesses; therefore, there are no findings to present in their "Management Letter." See Attachment B.

### **Total Assets:**

Total assets increased by \$13.1 million or 2.79% during Fiscal Year 2006. The vast majority of this increase can be attributed to an increase in capital assets \$34.5 million, net of related accumulated depreciation.

**Total Liabilities & Net Assets:**

Total liabilities increased by approximately \$2.2 million or 3.72% from the previous fiscal year. Underlying this change were the following:

- An increase in accounts payable and related liabilities of approximately \$2.9 million. Fluctuations of this magnitude are expected given the nature of accounts payable, and result from the timing of large payments to contractors and other third parties.
- A reduction in long-term debt outstanding of approximately \$1.5 million.

The increase in total assets and total liabilities yielded an increase in net assets (equity) of approximately \$11.0 million or 2.68%.

**Capital Contributions:**

Capital contributions totaled \$15.4 million during Fiscal Year 2006, a decrease of \$19.5 million or 55.87% over Fiscal Year 2005 contributions. This decrease is a reflection of the continuing slow down in home sales and related delays in new housing development projects, resulting in a decrease in the amount of physical infrastructure assets contributed to the District.

**Results of Operations:**

Operating revenues increased \$4.5 million or 10.44%, mainly as a result of an increase in water sales of \$4.4 million from the previous fiscal year which reflects the following underlying factors:

- An increase in water meter sales of 835 (46,648 to 47,483) from 2005 to 2006.
- A significant decrease in rainfall of 16.45 inches (22.51 to 6.06) from 2005 to 2006.

Operating expenses increased by approximately \$3.1 million, primarily as a result of an increase in the cost of water sales of \$1.9 million. Increases in Outside Services, Pension, and Health & Life Insurance costs accounted for the remainder of the increase in operating expenses.

**Non-Operating Revenues & Expenses:**

Non-operating revenues increased approximately \$0.2 million due to increases in Investment Income and Taxes & Assessments, offset by the fact that last year's total included a one-time gain on the sale of fixed assets of approximately \$2.2 million. Non-operating expenses decreased by approximately \$0.6 million, due primarily to one-time expenses in 2005 related to refunding of the 1993 Certificates of Participation (COPS).

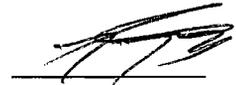
**Additional Audit Correspondence:**

As a part of completing the audit engagement, the audit firm also provides the following letters summarizing their observations and conclusions concerning the District's overall financial processes:

- Management Letter: No matters were noted involving the internal controls and their operations that were considered to be internal weaknesses. See Attachment B.
- Finance Committee Report: Noted no transactions entered into by the District during the year that were both significant and unusual, or transactions for which there is a lack of authoritative guidance or consensus. No audit adjustments were proposed to correct the financial statements. There were no disagreements with management concerning financial accounting, reporting, or auditing matters, and there were no significant difficulties in dealing with management in performing the audit. See Attachment C.
- Report on Internal Control over Financial Reporting: Results of audit tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. See Attachment D.

**FISCAL IMPACT:**

None.



**STRATEGIC OUTLOOK:**

The District is responsible for providing a diverse range of high-quality public utility services to a rapidly growing customer base. The District ensures its continued financial health through long-term financial planning, formalized financial policies, enhanced budget controls, fair pricing, debt planning, and improved financial reporting. The Finance Department is an integral part of the General Manager's vision to be "A District that is at the forefront of innovations to provide water services at affordable rates, with a reputation for outstanding customer service."

**LEGAL IMPACT:** \_\_\_\_\_

None.

  
\_\_\_\_\_  
General Manager

**Attachments:**

- A: Committee Action Form
- B: Audit Management Letter
- C: Audit Finance Committee Letter
- D: Audit Report on Internal Control Over Financial Reporting
- E: Comprehensive Annual Financial Report (CAFR)



## ATTACHMENT A

|                         |  |
|-------------------------|--|
| <b>SUBJECT/PROJECT:</b> | Accept the District's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2006 |
|-------------------------|--|

### COMMITTEE ACTION:

The Finance and Administration Committee recommends that the Board accept the District's Comprehensive Annual Financial Report (CAFR), including the Independent Auditor's unqualified opinion, for the Fiscal Year Ended June 30, 2006.

### NOTE:

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.



August 10, 2006

Joseph Beachem, Chief Financial Officer  
Otay Water District  
2554 Sweetwater Springs Blvd.  
Spring Valley, CA 91978-2096

Dear Mr. Beachem:

We have audited the financial statements of the Otay Water District (the "District") as of and for the year ended June 30, 2006, and have issued our report thereon dated August 10, 2006. In planning and performing our audit of the financial statements of the District, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. We noted no matters involving the internal control and its operation that we considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants.

We would like to take this opportunity to express our appreciation for the assistance extended to us during the course of the audit. If we can be of further assistance or if you have any questions regarding our recommendations, please call our office.

This report is intended solely for the information and use of the Board of Directors and management. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Respectfully Submitted,  
TEAMAN, RAMIREZ & SMITH, INC.

A handwritten signature in cursive script that reads "Richard A. Teaman".

Richard A. Teaman  
Certified Public Accountant



August 10, 2006

Finance Committee  
Otay Water District

We have audited the financial statements of the Otay Water District for the year ended June 30, 2006, and have issued our report thereon dated August 10, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Otay Water District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Otay Water District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate effecting the financial statements were management's estimate of the useful lives for capital assets.

During our audit of the basic purpose financial statements, we performed procedures to determine the reasonableness of the estimates used by management. Based on the procedures performed, we were able to conclude that the estimates used by management were reasonable.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Otay Water District's financial reporting process (that is, cause future financial statements to be materially misstated). For the 2005-2006 fiscal year, there were no such adjustments.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Otay Water District's Finance Committee and management of the Otay Water District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Seaman Ramirez & Smith*



**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Board of Directors  
Otay Water District  
Spring Valley, California

We have audited the financial statements of the business-type activities of the Otay Water District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 10, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Otay Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Otay Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for solely the information and use of the management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

*Teaman Ramirez & Smith*

August 10, 2006

ATTACHMENT E



# OTAY WATER DISTRICT

Comprehensive Annual Financial Report  
for the fiscal year ended June 30, 2006

Spring Valley,  
California

# Comprehensive Annual Financial Report

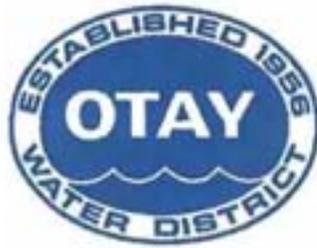
Fiscal Year Ended June 30, 2006



Prepared by the Finance Department  
Spring Valley, California

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## **INTRODUCTORY SECTION**



...Dedicated to Community Service

2554 SWEETWATER SPRINGS BOULEVARD, SPRING VALLEY, CALIFORNIA 91977-7299  
TELEPHONE: 670-2222, AREA CODE 619



## LETTER OF TRANSMITTAL

August 10, 2006

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, 2006. In 2006, the District's 50th year of providing quality potable and recycled water, and sewer service, there is an emphasis on new water sources, system reliability, and new maintenance requirements.

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

The District's financial statements have been audited by Teaman, Ramirez and 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, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.



## REPORTING ENTITY

The District is a publicly-owned water and sewer agency, authorized as a California special district in 1956 by the State Legislature 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 his or her fair share of the District's costs of water acquisition, operation and maintenance, betterment, and renewal and replacement of the public water and sewer facilities.



In 2006, the District celebrates its 50th anniversary. It began on an overcast summer day in 1955 when a plumber, a civil engineer, an attorney, a newspaper publisher, and two owners of large tracts of land gathered for lunch at Christie's Restaurant in Chula Vista. They met to discuss how together they could bring life-giving water to an arid region of southeastern San Diego County. By the end of the day, the group had a common vision, a few thousand dollars in capital, and the

framework for what would later become the Otay Water District. Their vision was realized on January 27, 1956, when the District was authorized by the California Legislature to an entitlement to import water.

Over the next 50 years, the District has grown from a handful of customers and two employees to become an organization operating a network with more than 663 miles of pipelines, 37 reservoirs, a sewer treatment plant, and one of the largest recycled water distribution networks in San Diego County. The character of the service area has also changed from predominantly dry-land farming and cattle ranching, to businesses, high-tech industries, and large master planned communities.

Today, the District provides water service to nearly 46,830 potable and 540 recycled customers within approximately 125 square miles of southeastern San Diego County. All of the potable water delivered by the District is purchased from the San Diego County Water Authority (CWA) who in turn purchases water from the region's water importer, the Metropolitan Water District of Southern California. In Fiscal Year 2007, the District began purchasing raw water from CWA and made an agreement with the City of San Diego to treat the water. By taking raw water through CWA's system there is increased reliability of water supplied to the District. This water is delivered through the Lower Otay Pump Station.

The District also owns and operates a wastewater collection and recycling system to provide public sewer service to approximately 4,570 homes and businesses (or 6,600 Assigned Service Units) within portions of the communities of La Mesa, Rancho San Diego, El Cajon, Jamul, and

Spring Valley. Recycled water from the Ralph W. Chapman Water Recycling Facility (RWCWRF) is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The RWCWRF project is capable of reclaiming wastewater at a rate of 1.3 million gallons per day. The District is also in a partnership with the City of San Diego to beneficially reuse an additional six million gallons per day of recycled water from the City's South Bay Water Reclamation Plant (SBWRP).

### CURRENT ECONOMIC CONDITIONS AND OUTLOOK

The District's service area is in one of the fastest growing regions in the nation. During the past decade, the population of the service area has nearly doubled. The phenomenal growth is continuing and as of January 2006, it is estimated that the District served 189,000 residents. In just the past four years, the District has added more than 5,000 new customer connections. This is reflected internally as the District's Development Services Department currently approves approximately 70 permits per month, and sold 835 water meters in Fiscal Year 2005-2006. The San Diego Association of Governments (SANDAG), the regional planning agency, estimates the District's rate of growth will continue for a decade or more. The District projects a total customer base of approximately 277,000 people by the year 2020.



### BUDGET SUMMARY

For Fiscal Year 2007, the budget totals \$94 million, with operating expenditures of \$59 million and capital expenditures of \$35 million. The District's goal is to provide the most effective and efficient service possible while maintaining affordability of the water supply for the community.

The operating expenditures are derived from three major sectors: water, reclamation, and sewer. Revenues for the water utility in Fiscal Year 2007 are projected to be \$47,616,200 about \$4.2 million (9.7%) greater than Fiscal Year 2006. Water sales are expected to increase as a result of a slowing but continuing growth trend occurring within the District's service area. This growth should add over 870 new customer accounts and increase the District's assets by approximately \$35 million for the year.

Significant aspects of the Operating Budget are:

- A balanced budget meeting the goals of the Strategic Plan.
- The District has updated a six-year Rate Model to ensure sound financial planning and reserve levels.
- The District implemented rate increases in potable and reclaimed water, and sewer. This included pass-through rate increases from CWA, City of San Diego, and County of San Diego who raised costs to the water and sewer customers.

- Of San Diego County's 23 water agencies, Otay's water rate is the seventh-lowest and below the county-wide average.
- The District is planning on issuing debt in Fiscal Year 2007 to fund the construction of new facilities, and replacement or enhancement of facilities.
- Includes funding for the six million gallons per day recycled water purchase agreement with the City of San Diego.
- Includes funding for new regulations for air vac, valve maintenance, and the automated meter reading change-out program.
- Expands residential, landscape, and commercial water conservation programs.
- Enhances Storm Water Control Best Management Practices.
- Funds the fourth year of a Five-Year Labor Agreement ending in Fiscal Year 2008.

The projected operating cost for salaries and benefits is \$14.6 million, which is an increase of \$1,149,000 (8.5%) compared to Fiscal Year 2006. The increase in labor is predominately the result of negotiated pay and benefit increases.

Estimated growth of 870 potable and recycled water accounts will bring the new customer count to 47,670 potable and 570 recycled accounts by the end of Fiscal Year 2007 that equates to approximately 74,600 equivalent dwelling units (EDUs). The ultimate population projection of 277,000 will result in an estimated 114,000 EDUs and an average annual water demand of approximately 56 million gallons per day (MGD). To accommodate this growth, the District will need to invest an estimated \$530 million in capital assets through ultimate build-out. The Fiscal Year 2006-07 Capital Budget consists of 90 projects and a budget of \$35 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth.

The District has begun to address the transformation from a growth-centric to a maintenance-based organization. Capital and developer fees support growth but replacement and maintenance is supported by rates and operating expenses. Otay has been very successful in managing growth and now needs to focus on managing long-term maintenance and replacement of its aging infrastructure.



## STRATEGIC BUSINESS PLAN

To guide operations and planning efforts during this time of sustained growth, in 2001 the District began developing a Strategic Business Plan. This plan was designed to address the unique challenges and opportunities resulting from growth. It would also guide the District as it strives to develop the necessary infrastructure and operational practices to perform its primary business while ensuring quality customer service and competitive rates are maintained.

The first multi-year Strategic Business Plan was adopted by the Board of Directors in 2002. Each year, the Board of Directors reviews and updates the plan. While the first plan guided the District through a period of record growth, the updated plan using a balanced scorecard method, looks forward to a time when the majority of the requisite physical infrastructure is in place and the District begins to transform from a growth-centric entity to a maintenance-based organization. The District has been very successful managing growth and recognizes that continued success is predicated on developing reliable, long-term, water supplies as well as managing long-term maintenance and replacement of its infrastructure.



One key to addressing the challenges is to capitalize on the significant investment that has been made in implementing integrated information systems. With the Otay Information System in place, the District has focused on business process improvement utilizing best-in-class technology. Other Strategic Business Plan objectives include securing additional water sources, continuing expansion of its potable and recycled water networks, expanding use of recycled water, and continuing efforts to promote conservation.

The vision incorporated in the Strategic Plan calls for: continuing to enhance the District's financial reporting document capabilities; developing an Integrated Water Resources Plan (IRP) including potable, recycled water, and wastewater services; identifying and supporting the development of new water sources such as desalination, agricultural to urban water transfers, groundwater development, and the use of recycled water; and utilizing new technologies to continue streamlining operations to minimize rate increases and to ensure the District's viability through the entire build-out of its customer base.

### Putting the Strategic Business Plan to Work

With the Strategic Business Plan serving as its primary guide, the Board of Directors adopted a balanced \$59 million Operating Budget and \$35 million Capital Improvement Program (CIP) for Fiscal Year 2006-2007. The budget is also aligned with the District's long-range financing plan, Rate Model, and financial statements. In conjunction with a Bond refinancing, the credit rating firm Standard and Poor's awarded the Otay Water District an A+ credit rating. Standard and Poor's presented the A+ rating after reviewing the District's financing plan, Rate Model, Strategic Plan, budget, and financial statements.

## Water Resources



The Strategic Plan drives advances in every aspect of District operations. For instance, the Strategic Plan called for updating of the Urban Water Management Plan (UWMP), which was completed in December 2005. The UWMP serves as a long-range planning document for water supply and demand, and provides an overview of the District's water supply and usage, recycled water, and conservation programs. The UWMP works to ensure the District always has the water resources it needs to meet the demands of a growing community.

The need to develop an Integrated Water Resources Plan (IRP) is identified within the Strategic Plan. The mission of the IRP is to find the optimal mix of imported water, local supplies, and conservation efforts to meet projected ultimate supply requirements in a cost-effective manner while also incorporating environmental impacts, implementation risks, and other factors. The planning objectives are to maintain affordability, meet water quality standards, achieve supply reliability, increase system flexibility, increase supply diversity, and address environmental and institutional constraints. The IRP planning effort will identify and evaluate all potential water resource supply opportunities to arrive at a recommended diverse water supply portfolio. The water supply portfolio will provide a strategic approach and focused direction to be incorporated into the water resources master plan and the Capital Improvement Program for the development of sufficient water supply to meet the planning objectives for long-term sustainability. The water supply alternatives include all potential opportunities such as desalination, groundwater, water transfers, recycled water supply development, and interagency agreements.

## Recycled Water

Included in the UWMP is an agreement with the City of San Diego allowing the District to purchase recycled water from the City's South Bay Reclamation Facility. This contract will deliver, on average, more than six million gallons per day of recycled water to the District's growing population. Recycled water purchased from this facility will be used to irrigate golf courses, parks, open space, road medians, and other commercial processes. Using this mostly untapped resource to address specific demands will result in the District reducing its potable water use by approximately 15%, maximizing the beneficial use of an alternative resource, which also makes millions of



gallons per day of potable water available for higher quality and better purposes. In May 2005, the District awarded a contract for approximately six miles of pipeline connecting the City's reclamation facility to the District's pumping station and reservoir facilities, with construction scheduled to be completed in spring 2007. The District will be receiving \$4 million from Proposition 50 from the State Water Resources Control Board (SWRCB) for partial funding of this project.

### The Future

The Otay Water District continues to use the challenges presented by growth to create new opportunities and new organizational efficiencies. By utilizing and continuing to refine its Strategic Plan, it has captured the Board of Director's vision and united its staff in a common mission. The organization has achieved a number of significant accomplishments based on its successful adherence to the plan. As a result, the District is poised to successfully continue providing an affordable, safe, and reliable water supply for the people of its service area.



### ACCOUNTING SYSTEM

The Finance Department is responsible for providing financial services to the District, including financial accounting and reporting, payroll and accounts payable, custody and 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, as it is the intent of the Board to manage the District's operations as a business, thus matching revenues against costs of providing services. Revenues and expenses are recorded on the accrual basis in the period in which revenue is earned and expenses are incurred.

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

### INTERNAL CONTROLS

All internal control evaluations occur within the above framework. Management believes the District's internal controls, procedures, and policies adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

In addition, the District maintains controls to provide for compliance with all finance related legal and contractual provisions. Management believes the activities reported within the

presented Comprehensive Annual Financial Report (CAFR) comply with these finance related legal and contractual provisions, including bond covenants and fiduciary responsibilities.

### BUDGETING CONTROLS

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

### CASH MANAGEMENT

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

### RISK MANAGEMENT

Since 1993 the District has been a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA provides joint protection coverage for losses in excess of District deductibles for workers' compensation coverage. In 2003, the District became a member of the Special District Risk Management Authority (SDRMA), a pool program which provides the District's coverage for property, auto, and liability claims.



During Fiscal Year 2005-2006, the District continued its proactive liability risk management role through careful monitoring of losses and designing and implementing programs to minimize risks and losses. In addition, the District's Safety Committee analyzes workers' compensation issues by monitoring work conditions, and organizing and implementing safety training programs to reduce employee exposure to hazards.

## PENSION PLANS

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

## OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The District provides other post-employment benefits (OPEB) as a part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes healthcare, as well as other forms of benefits (for example life insurance) when provided separately from a pension plan. Financial reporting of the actuarial accrued liabilities corresponding to all promised benefits associated with past services of District employees is not required until Fiscal Year 2008-2009. Setting the District apart from most state and local government employers, the District designated \$16.7 million which fully funded its net OPEB obligations as of the last actuarial projection dated June 30, 2004. For additional information see Note 8 to the Financial Statements.

## AWARDS AND ACKNOWLEDGMENTS

This year, the District received the State of California's "Flex Your Power" award for its Demand Response Program. Since 2003, the OWD has upgraded pumps, motors, lights, as well as heating and air conditioning equipment to improve efficiency and save energy. Energy savings from these actions save 1.7 million kilowatt-hours of energy each year.

The District also reduced electricity use by cutting demand during peak hours when energy supplies are tight. Through participation in the Flex Your Power Demand Response Program, the District was able to cut its peak demand by 56% through time-of-use metering and off-peak pumping. While participating in the Flex Your Power campaign, the District has cut energy use and produced approximately \$93,000 in annual energy savings. Reducing energy use during peak periods also reduced demand on the state-wide power grid. Across California, the Flex Your Power campaign has reduced electricity demand by more than two million kilowatts, the equivalent capacity of two nuclear power plants.

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Otay Water District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. 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. In addition, the CAFR received the *Outstanding Financial Reporting Award* from the California Society of Municipal Finance Officers (CSMFO). We believe that our current Comprehensive Annual Financial Report continues to meet both of the program's requirements and are submitting it to the GFOA and CSMFO to determine its eligibility for future awards.

The District also received a *Distinguished Budget Presentation Award* from the GFOA for the District's Operating and Capital Budget for Fiscal Year beginning July 1, 2005, as well as three awards from the CSMFO for *Excellence in Public Communications*, *Meritorious in Innovation in Budgeting*, and *Excellence in Capital Budgeting*. These prestigious awards recognize conformance with the highest standards for preparation of state and local government financial reports.

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 and 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.

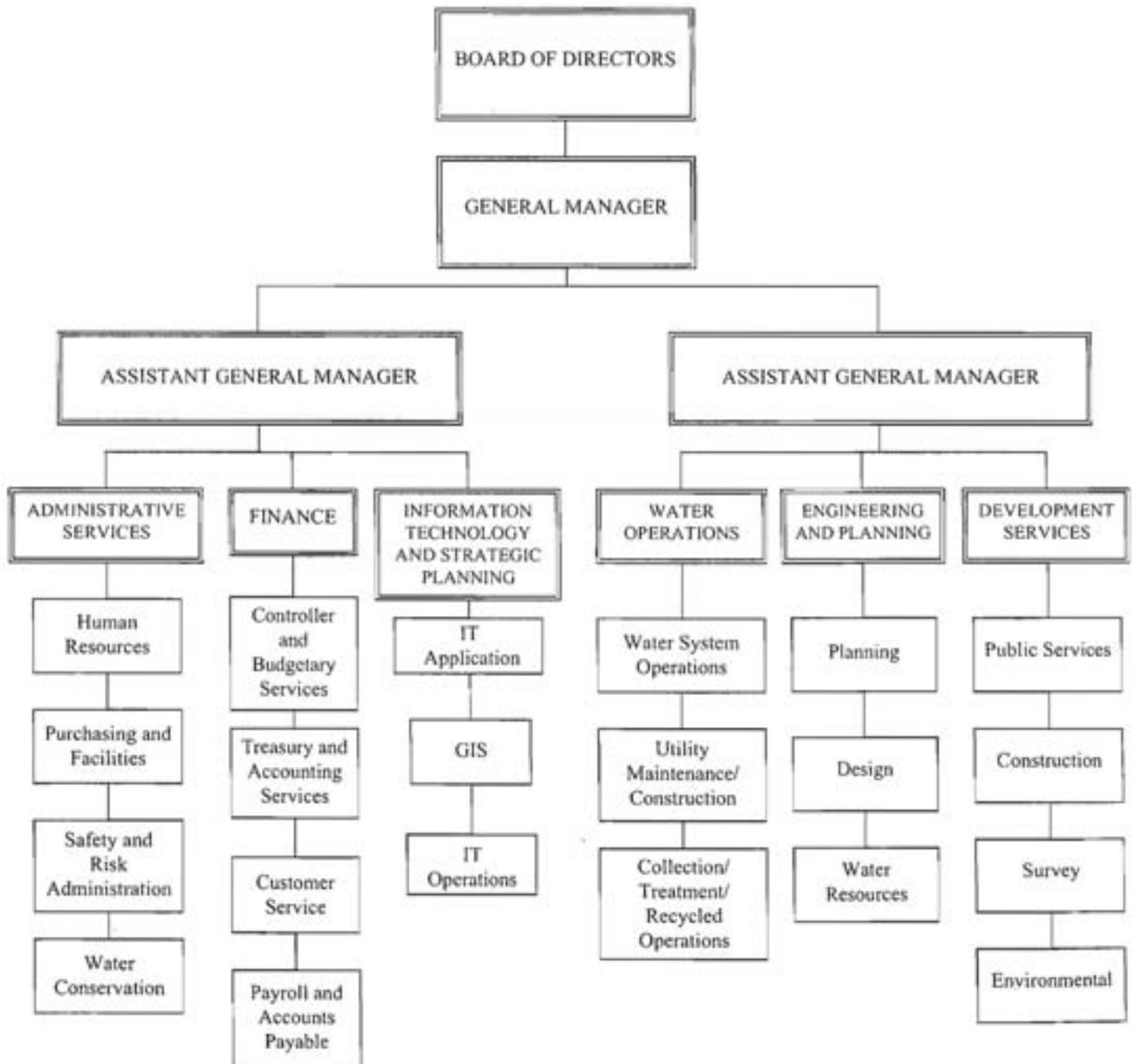


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Mark Watton, General Manager



## ORGANIZATION CHART



**LIST OF PRINCIPAL OFFICIALS**  
**Fiscal Year 2005-2006**

**Board of Directors**



*Listed from Left to Right*

**Larry Breittfelder - Division 1**

**Jose Lopez – President - Division 4**

**Jaime Bonilla - Division 2**

**Mark Robak - Vice President, Division 5**

**Gary Croucher - Treasurer, Division 3**

**District Financial Management**

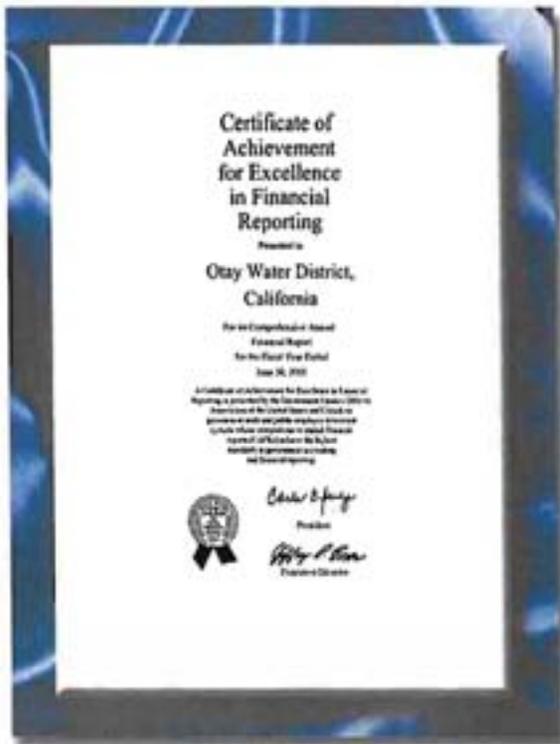
**Mark Watton - General Manager**

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

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

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

## AWARDS





**FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Otay Water District  
Spring Valley, California

We have audited the accompanying financial statements of the business-type activities of the Otay Water District, as of and for the years ended June 30, 2006 and 2005, which collectively comprise the District's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Otay Water District, as of June 30, 2006 and 2005, and the cash flows where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006 on our consideration of the District's internal control over financial reporting and our test 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information identified in the accompanying table of contents as *Management's Discussion and Analysis* and *Required Supplementary Information* is not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Otay Water District's basic financial statements. The introductory section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

August 10, 2006



## OTAY WATER DISTRICT 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, 2006. 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 \$422.1 million (*net assets*). Of this amount, \$60.5 million (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$11.0 million. Approximately \$6.0 million of this is attributable to an increase in operating revenues over the prior fiscal year.

### Overview of the Financial Statements

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

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

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

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

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data supplied in the government-wide financial statements.

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

### Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$422.1 million at the close of the most recent fiscal year.

By far, the largest portion of the District's net assets, \$361.6 million (86%), reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



## OTAY WATER DISTRICT Management's Discussion and Analysis

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

|   | <u>2006</u>     | <u>2005</u>     | <u>Dollar<br/>Change</u> | <u>Total %<br/>Change</u> |
|---|-----------------|-----------------|--------------------------|---------------------------|
| <b>Assets</b>                                     |                 |                 |                          |                           |
| Current and Other Assets                          | \$ 86.4         | \$ 107.8        | \$ (21.4)                | (19.85)%                  |
| Capital Assets                                    | <u>397.0</u>    | <u>362.5</u>    | <u>34.5</u>              | <u>9.52%</u>              |
| Total Assets                                      | <u>483.4</u>    | <u>470.3</u>    | <u>13.1</u>              | <u>2.79%</u>              |
| <b>Liabilities</b>                                |                 |                 |                          |                           |
| Long-term Debt Outstanding                        | 33.9            | 35.3            | (1.4)                    | (3.97)%                   |
| Other Liabilities                                 | <u>27.4</u>     | <u>23.8</u>     | <u>3.6</u>               | <u>15.13%</u>             |
| Total Liabilities                                 | <u>61.3</u>     | <u>59.1</u>     | <u>2.2</u>               | <u>3.72%</u>              |
| <b>Net Assets</b>                                 |                 |                 |                          |                           |
| Invested in Capital Assets<br>Net of Related Debt | 361.6           | 325.7           | 35.9                     | 11.02%                    |
| Restricted  | 0.0             | 16.2            | (16.2)                   | (100.00)%                 |
| Unrestricted                                      | <u>60.5</u>     | <u>69.2</u>     | <u>(8.7)</u>             | <u>(12.57)%</u>           |
| Total Net Assets                                  | <u>\$ 422.1</u> | <u>\$ 411.1</u> | <u>\$ 11.0</u>           | <u>2.68%</u>              |

In prior years the District segregated Net Assets into 3 categories: Restricted, Unrestricted, and Invested in Capital Assets Net of Related Debt. The Restricted assets consisted of funds that were designated for capital improvements. During the current year all of these funds were used to pay for major capital improvements in the District's Potable Water System and Reclaimed Water System.

At the end of the fiscal year, the District is able to report positive balances in all categories of net assets. The situation held true for the prior fiscal year. Total net assets increased by approximately \$11.0 million from the prior year, substantially as a result of a \$34.5 million increase in capital assets, net of related accumulated depreciation. An increase in infrastructure of \$29.0 million from 2005 to 2006 accounted for the majority of the increase in Capital Assets, see note 3 in the Notes to Financial Statements for additional information. Other less significant changes include an increase in accounts payable of \$2.9 million, and a decrease in long-term debt of \$1.5 million.

Funding for the increase in net assets came primarily from capital contributions during fiscal year 2005-2006, which totaled approximately \$15.4 million.



## OTAY WATER DISTRICT Management's Discussion and Analysis

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

|                                   | 2006            | 2005            | Dollar<br>Change | Total %<br>Change |
|-----------------------------------|-----------------|-----------------|------------------|-------------------|
| Water Sales                       | \$ 43.8         | \$ 39.3         | \$ 4.5           | 11.45 %           |
| Wastewater Revenue                | 2.3             | 2.0             | 0.3              | 15.00 %           |
| Connection and Other Fees         | 1.8             | 2.0             | (0.2)            | (10.00) %         |
| Non-operating Revenues            | <u>8.5</u>      | <u>8.3</u>      | <u>0.2</u>       | <u>3.61 %</u>     |
| <b>Total Revenues</b>             | <u>56.4</u>     | <u>51.6</u>     | <u>4.8</u>       | <u>9.30 %</u>     |
| Depreciation Expense              | 10.1            | 10.5            | (0.4)            | (3.81) %          |
| Other Operating Expense           | 49.5            | 46.0            | 3.5              | 7.61 %            |
| Non-operating Expense             | <u>1.2</u>      | <u>1.9</u>      | <u>(0.7)</u>     | <u>(36.84) %</u>  |
| <b>Total Expenses</b>             | <u>60.8</u>     | <u>58.4</u>     | <u>2.4</u>       | <u>4.11 %</u>     |
| Loss Before Capital Contributions | (4.4)           | (6.8)           | 2.4              | 35.29 %           |
| Capital Contributions             | <u>15.4</u>     | <u>34.9</u>     | <u>(19.5)</u>    | <u>(55.87) %</u>  |
| Change in Net Assets              | 11.0            | 28.1            | (17.1)           | (60.85) %         |
| Beginning Net Assets              | <u>411.1</u>    | <u>383.0</u>    | <u>28.1</u>      | <u>7.34 %</u>     |
| Ending Net Assets                 | <u>\$ 422.1</u> | <u>\$ 411.1</u> | <u>\$ 11.0</u>   | <u>2.68 %</u>     |

Water sales increased by \$4.5 million from the prior year mainly due to reduced rainfall during the current year, as well as an increase in water meter sales of 835 (46,648 to 47,483). There was a significant decrease in rainfall of 16.45 inches (22.51 to 6.06), and total water sales increased by 3,044 acre-feet.

Wastewater revenue increased by \$0.3 million as a result of a rate increase from \$26.90 to \$30.90 per assigned service unit. This increase was implemented in January of 2006 and was a pass-through cost increase from the City and County of San Diego as discussed in the Budget 2006-2007 section of this document.

Other operating expenses increased by approximately \$3.5 million, predominately as a result of an increase in the cost of water sales of \$2.2 million. Increases in outside services and higher pension costs accounted for the remainder of the increase in other operating expenses.

## OTAY WATER DISTRICT

### Management's Discussion and Analysis

#### Capital Assets and Debt Administration

*Capital Assets.* The District's capital assets as of June 30, 2006, totaled \$397.0 million (net of accumulated depreciation). Included in this amount is land. The total increase in the District's capital assets for the current fiscal year was 9.5%.

| <b>Capital Assets</b>            |                 |                 |                                |                                 |
|----------------------------------|-----------------|-----------------|--------------------------------|---------------------------------|
| <b>(In Millions of Dollars)</b>  |                 |                 |                                |                                 |
|                                  | <u>2006</u>     | <u>2005</u>     | <u>Dollar</u><br><u>Change</u> | <u>Total %</u><br><u>Change</u> |
| Land                             | \$ 12.5         | \$ 12.2         | \$ 0.3                         | 2.46 %                          |
| Water System                     | 333.0           | 313.9           | 19.1                           | 6.08 %                          |
| Engineering Equipment            | 5.7             | 5.7             | 0                              | 0.00 %                          |
| Buildings                        | 17.5            | 16.7            | 0.8                            | 4.79 %                          |
| Power Operated Equipment         | 1.6             | 1.6             | 0.0                            | 0.00 %                          |
| Transportation Equipment         | 2.9             | 2.8             | 0.1                            | 3.57 %                          |
| Other Equipment                  | 10.9            | 10.3            | 0.6                            | 5.83 %                          |
| Reclaimed Water System           | 49.1            | 39.8            | 9.3                            | 23.37 %                         |
| Sewer System                     | 37.7            | 37.2            | 0.5                            | 1.34 %                          |
| Construction in Progress         | <u>58.9</u>     | <u>45.1</u>     | <u>13.8</u>                    | <u>30.60 %</u>                  |
|                                  | 529.8           | 485.3           | 44.5                           | 9.17 %                          |
| Less Accumulated<br>Depreciation | <u>(132.8)</u>  | <u>(122.8)</u>  | <u>10.0</u>                    | <u>8.14 %</u>                   |
| Net Capital Assets               | <u>\$ 397.0</u> | <u>\$ 362.5</u> | <u>\$ 34.5</u>                 | <u>9.52 %</u>                   |

As indicated by figures in the table above, the majority of capital assets added during the current fiscal year were related to water systems. In addition, the majority of the cost of construction in progress also related to water systems.

Additional information on the District's capital assets can be found in Note 3.

*Long-term Debt.* At June 30, 2006, the District had \$35.4 million in outstanding debt which consisted of the following:

|                               |                |
|-------------------------------|----------------|
| General Obligation Bonds      | \$ 8.8         |
| Certificates of Participation | 24.9           |
| Notes Payable                 | 1.7            |
| Capital Leases                | <u>0.0</u>     |
| Total Long-term Debt          | <u>\$ 35.4</u> |

Additional information on the District's long term debt can be found in Note 5.



# OTAY WATER DISTRICT

## Management's Discussion and Analysis

### Fiscal Year 2006-2007 Budget

#### **Economic Factors**

While growth in the San Diego area has slowed over the last year, demand for housing continues at a similar reduced pace. This growth in new homes is expected to continue at a long-term rate of 3% until ultimate build-out. The District currently provides water service to about 68% of its total projected population, serving approximately 189,000 people. This percentage should continue to increase as the District's service area continues to develop and grow. The District is projected to deliver approximately 42,300 acre-feet of water to 48,237 customers during fiscal year 2006-2007.

Ultimately, the District is projected to serve approximately 277,000 people, creating an average daily demand of 56.3 million gallons per day (MGD).

#### **Financial**

The rapidly expanding demand for water service over the past few years continues to support the incremental costs associated with meeting this increase in demand. As a result, the District has been able to increase staffing levels and implement strategic changes that will provide long-term benefits to the District, while only increasing rates at modest levels.

In an effort to remain pro-active and re-affirm the adequacy of its current sewer rate structure, the District conducted a comprehensive rate study during fiscal year 2002-2003 with the assistance of the professional firm of Black & Veatch Corporation. The conclusions reached in the rate study revealed the need to raise rates in order to pass along cost increases from the City and County of San Diego. The first sewer rate increase was implemented in January of 2004 and rates were increased annually through 2006 to lessen the impact on customers. Future sewer rate increases will be tied directly to the cost of services.

In 2003, the San Diego County Water Authority and the Metropolitan Water District changed their rate structure from a mostly variable rate structure to one that incorporates a greater proportion of fixed fees. In 2004, the fixed fee portion increased significantly, leading the District to implement a new consolidated pass-through charge to potable water customers effective January 1, 2004.

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

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

This financial report is designed to provide a general overview of the Otay Water District's finances for the Board of Directors, taxpayers, creditors, and other interested parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the District's Finance Department, 2554 Sweetwater Springs Blvd., Spring Valley, CA 91978-2096.

**B**asic  
**F**inancial  
**S**tatements





**OTAY WATER DISTRICT**  
**Statement of Net Assets**  
**June 30, 2006 and 2005**

|  | <u>2006</u>           | <u>2005</u>           |
|--|-----------------------|-----------------------|
| <b>ASSETS</b>  |                       |                       |
| Current Assets:                                      |                       |                       |
| Cash and Cash Equivalents (Note 2)                   | \$ 13,755,907         | \$ 3,473,662          |
| Restricted Cash and Cash Equivalents (Note 2)        | 0                     | 6,623,379             |
| Investments (Note 2)                                 | 62,596,513            | 73,376,529            |
| Accounts Receivable                                  | 6,808,999             | 7,105,484             |
| Accrued Interest Receivable                          | 818,798               | 82,483                |
| Restricted Accrued Interest Receivable               | 0                     | 506,678               |
| Restricted Taxes and Availability Charges Receivable | 318,090               | 322,438               |
| Inventory  | 592,426               | 620,119               |
| Prepaid Expenses and Other Current Assets            | 664,133               | 341,686               |
| Total Current Assets                                 | <u>85,554,866</u>     | <u>92,452,458</u>     |
| Noncurrent Assets:                                   |                       |                       |
| Restricted Cash and Cash Equivalents (Note 2)        | 0                     | 14,430,450            |
| Capital Assets, Net of Depreciation (Note 3)         | 396,987,584           | 362,480,711           |
| Other Noncurrent Assets (Note 4)                     | 838,990               | 894,745               |
| Total Noncurrent Assets                              | <u>397,826,574</u>    | <u>377,805,906</u>    |
| Total Assets   | <u>483,381,440</u>    | <u>470,258,364</u>    |
| <b>LIABILITIES</b>                                   |                       |                       |
| Current Liabilities:                                 |                       |                       |
| Current Maturities of Long-term Debt (Note 5)        | 1,529,848             | 1,456,907             |
| Accounts Payable                                     | 11,617,499            | 11,809,983            |
| Accrued Payroll Liabilities                          | 2,348,853             | 2,012,855             |
| Other Accrued Liabilities                            | 683,350               | 603,657               |
| Customer Deposits                                    | 2,489,101             | 2,244,193             |
| Liabilities Payable From Restricted Assets:          |                       |                       |
| Accounts Payable                                     | 7,633,220             | 4,556,884             |
| Accrued Interest                                     | 413,442               | 403,839               |
| Total Current Liabilities                            | <u>26,715,313</u>     | <u>23,088,318</u>     |
| Noncurrent Liabilities:                              |                       |                       |
| Liabilities Payable From Restricted Assets:          |                       |                       |
| Prepaid Capacity Fees                                | 733,915               | 733,854               |
| Long-term Debt (Note 5)                              |                       |                       |
| General Obligation Bonds                             | 8,396,755             | 8,728,482             |
| Certificates of Participation                        | 24,119,352            | 24,908,607            |
| Notes Payable  | 1,350,778             | 1,659,035             |
| Capital Lease Payable                                | 0                     | 51,595                |
| Total Noncurrent Liabilities                         | <u>34,600,800</u>     | <u>36,081,573</u>     |
| Total Liabilities                                    | <u>61,316,113</u>     | <u>59,169,891</u>     |
| <b>NET ASSETS (NOTE 6)</b>                           |                       |                       |
| Invested in Capital Assets, Net of Related Debt      | 361,590,845           | 325,676,089           |
| Restricted   | 0                     | 16,188,364            |
| Unrestricted   | 60,474,482            | 69,224,020            |
| Total Net Assets                                     | <u>\$ 422,065,327</u> | <u>\$ 411,088,473</u> |

The accompanying notes are an integral part of this statement.



**OTAY WATER DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2006 and 2005**

|   | <u>2006</u>               | <u>2005</u>               |
|---|---------------------------|---------------------------|
| <b>OPERATING REVENUES</b>                   |                           |                           |
| Water Sales                                 | \$ 43,755,610             | \$ 39,348,056             |
| Wastewater Revenue                          | 2,328,582                 | 2,017,992                 |
| Connection and Other Fees                   | 1,776,896                 | 540,055                   |
| <br>Total Operating Revenues                | <br><u>47,861,088</u>     | <br><u>41,906,103</u>     |
| <br><b>OPERATING EXPENSES</b>               |                           |                           |
| Cost of Water Sales                         | 31,630,074                | 29,655,869                |
| Wastewater                                  | 2,313,278                 | 2,521,861                 |
| Administrative and General                  | 15,552,287                | 13,809,022                |
| Depreciation                                | 10,107,455                | 10,524,134                |
| <br>Total Operating Expenses                | <br><u>59,603,094</u>     | <br><u>56,510,886</u>     |
| <br>Operating Income (Loss)                 | <br><u>(11,742,006)</u>   | <br><u>(14,604,783)</u>   |
| <br><b>NONOPERATING REVENUES (EXPENSES)</b> |                           |                           |
| Investment Income                           | 3,188,645                 | 2,052,292                 |
| Taxes and Assessments                       | 2,779,635                 | 2,326,526                 |
| Availability Charges                        | 609,099                   | 556,590                   |
| Gain on Sale of Capital Assets              | 142,922                   | 2,196,655                 |
| Miscellaneous Revenues                      | 1,835,710                 | 2,518,285                 |
| Donations                                   | 0                         | (35,894)                  |
| Interest Expense                            | (959,225)                 | (1,327,844)               |
| Miscellaneous Expenses                      | (279,506)                 | (523,905)                 |
| <br>Total Nonoperating Revenues (Expenses)  | <br><u>7,317,280</u>      | <br><u>7,762,705</u>      |
| <br>Income (Loss) Before Contributions      | <br><u>(4,424,726)</u>    | <br><u>(6,842,078)</u>    |
| <br>Capital Contributions                   | <br><u>15,401,580</u>     | <br><u>34,969,305</u>     |
| <br>Change in Net Assets                    | <br><u>10,976,854</u>     | <br><u>28,127,227</u>     |
| <br>Total Net Assets, Beginning             | <br><u>411,088,473</u>    | <br><u>382,961,246</u>    |
| <br>Total Net Assets, Ending                | <br><u>\$ 422,065,327</u> | <br><u>\$ 411,088,473</u> |

The accompanying notes are an integral part of this statement.



**OTAY WATER DISTRICT**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2006 and 2005**

|   | <u>2006</u>          | <u>2005</u>          |
|---|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |                      |                      |
| Cash Received from Customers  | \$ 46,771,759        | \$ 40,612,964        |
| Cash from Other Operating Activities  | 1,776,896            | 540,055              |
| Other Receipts  | 1,029,696            | 1,866,753            |
| Cash Payments to Suppliers  | (30,960,264)         | (26,933,592)         |
| Cash Payments to Employees  | (15,530,526)         | (13,203,467)         |
| Other Payments  | <u>(186,793)</u>     | <u>(192,995)</u>     |
| Net Cash Provided (Used) By Operating Activities                            | <u>2,900,768</u>     | <u>2,689,718</u>     |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                      |                      |                      |
| Receipts from Taxes and Assessments   | 2,783,983            | 2,227,292            |
| Receipts from Property Rents and Leases                                     | 819,239              | 766,733              |
| Net Amounts Paid for Acquisition and Maintenance of<br>Demonstration Garden | <u>0</u>             | <u>(35,894)</u>      |
| Net Cash Provided (Used) By Noncapital Financing Activities                 | <u>3,603,222</u>     | <u>2,958,131</u>     |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>             |                      |                      |
| Proceeds from Capital Contributions   | 9,467,925            | 11,401,613           |
| Proceeds from Sale of Capital Assets  | 142,922              | 2,637,143            |
| Proceeds from Debt Related Taxes and Assessments                            | 609,099              | 579,905              |
| Proceeds from Long-Term Debt (Note 5)                                       | 0                    | 12,270,000           |
| Principal Payments on Long-Term Debt (Note 5)                               | (1,456,905)          | (13,014,439)         |
| Premium Payment on Long-Term Debt   | 0                    | (233,600)            |
| Acquisition and Construction of Capital Assets                              | (38,828,017)         | (20,231,136)         |
| Interest Paid   | <u>(949,622)</u>     | <u>(1,676,550)</u>   |
| Net Cash (Used) By Capital and Related Financing Activities                 | <u>(31,014,598)</u>  | <u>(8,267,064)</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |                      |                      |
| Interest Received on Investments  | 2,959,008            | 1,938,759            |
| Proceeds from Sale and Maturities of Investments                            | 52,780,016           | 8,000,000            |
| Purchase of Investments   | <u>(42,000,000)</u>  | <u>(24,012,814)</u>  |
| Net Cash Provided (Used) by Investing Activities                            | <u>13,739,024</u>    | <u>(14,074,055)</u>  |
| Net Increase (Decrease) in Cash and Cash Equivalents                        | (10,771,584)         | (16,693,270)         |
| Cash and Cash Equivalents - Beginning of Year                               | <u>24,527,491</u>    | <u>41,220,761</u>    |
| Cash and Cash Equivalents - End of Year                                     | <u>\$ 13,755,907</u> | <u>\$ 24,527,491</u> |

The accompanying notes are an integral part of this statement.



**OTAY WATER DISTRICT**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2006 and 2005**

|   | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b> |                     |                     |
| Net Operating Income (Loss)   | \$ (11,742,006)     | \$ (14,604,783)     |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:        |                     |                     |
| Depreciation  | 10,107,455          | 10,524,134          |
| Miscellaneous Revenues  | 1,029,696           | 1,866,753           |
| Miscellaneous Expenses  | (186,793)           | (192,995)           |
| Increase in Allowance for Doubtful Accounts   | 146,174             | 0                   |
| (Increase) Decrease in Accounts Receivable  | 296,485             | (753,084)           |
| (Increase) Decrease in Inventory  | 27,693              | (133,811)           |
| (Increase) Decrease in Prepaid Expenses and Other Current Assets                                      | (322,447)           | (90,729)            |
| Increase (Decrease) in Accounts Payable   | 2,883,852           | 6,435,312           |
| Increase (Decrease) in Accrued Payroll and Related Expenses   | 335,998             | (116,231)           |
| Increase (Decrease) in Other Accrued Liabilities  | 79,693              | 126,893             |
| Increase (Decrease) in Customer Deposits  | 244,908             | (321,783)           |
| Increase (Decrease) in Prepaid Capacity Fees  | 60                  | (49,958)            |
|   | <u>\$ 2,900,768</u> | <u>\$ 2,689,718</u> |
| <b>Total Cash Provided (Used) By Operating Activities</b>   |                     |                     |
|   | <u>\$ 2,900,768</u> | <u>\$ 2,689,718</u> |
| <b>SUPPLEMENTAL DISCLOSURES</b>   |                     |                     |
| <b>Non-cash Investing and Financing Activities Consisted of the Following:</b>                        |                     |                     |
| Contributed Capital for Water and Sewer System  | \$ 24,494,557       | \$ 23,580,701       |
| Change in Fair Value of Investments and Recognized Gains/Losses                                       | 354,270             | (347,693)           |
| Capital Contribution Resulting from Prepaid Capacity Fees   | 61                  | 55,848              |
| Amortization Related to Long-term Debt  | 92,713              | 95,568              |
|   |                     |                     |
| Cash Paid for Interest Expense  | \$ 1,410,957        | \$ 1,360,257        |

The accompanying notes are an integral part of this statement.



**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

| <u>NOTE</u> | <u>DESCRIPTION</u>  | <u>PAGE</u> |
|-------------|---|-------------|
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| 2           | Cash and Investments  | 15 - 19     |
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| 4           | Other Noncurrent Assets   | 20          |
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| 7           | Net Assets  | 25          |
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## **OTAY WATER DISTRICT**

### **Notes to Financial Statements**

### **Years Ended June 30, 2006 and 2005**

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

##### **A) Reporting Entity**

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

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

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

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

Fund equity is displayed as three components: (1) Invested in capital assets, net of related debt, which reflects the cost of capital assets less accumulated depreciation and less the outstanding principal of related debt not associated with unspent bond proceeds; (2) Restricted, which reflects the carrying value of assets less related liabilities that are restricted by outside covenants or by law; and (3) Unrestricted, which represents the remaining fund equity balance.

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

The District recognizes revenues from water sales, wastewater revenues and meter fees as they are earned. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego, net of allowance for delinquencies of \$35,343 and \$35,826 at June 30, 2006 and 2005, respectively.

Additionally, capacity fee contributions received in an amount corresponding to expansion specific operating expenses are offset against these expenses and included in Cost of Water Sales in the Statement of Revenues and expenses and Changes in Net Assets.

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

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governmental enterprise funds. In accordance with GASB Statement 20, the District has elected to follow all GASB Pronouncements and apply all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, with the exception of those that conflict with or contradict GASB Pronouncements.



# OTAY WATER DISTRICT

## Notes to Financial Statements

### Years Ended June 30, 2006 and 2005

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

##### C) Statement of Cash Flows

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

##### D) Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the District's investments are stated at fair value, which is determined using selected basis. Short-term investments are reported at cost, which approximates fair value. Investments in government obligations are valued on over-the-counter bid quotations available at year-end. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported on the fair value per share, of the pool's underlying portfolio.

##### E) Inventory and Prepays

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

##### F) Capital Assets

Capital assets are recorded at cost, where historical records are available, and at an estimated historical cost where no historical records exist. Capital assets purchased in excess of \$5,000 are capitalized if they have an expected useful life of two years or more. The cost of purchased and self-constructed additions to utility plant and major replacements of property are capitalized. Costs include materials, direct labor, transportation, and such indirect items as engineering, supervision, employee fringe benefits, and interest incurred during the construction period. Repairs, maintenance, and minor replacements of property are charged to expense. Donated assets are capitalized at their approximate fair market value on the date contributed.

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

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

|                          |             |
|--------------------------|-------------|
| Water System             | 15-70 Years |
| Engineering Equipment    | 2-50 Years  |
| Buildings                | 30-50 Years |
| Power Operated Equipment | 5-10 Years  |
| Transportation Equipment | 2-4 Years   |
| Other Equipment          | 2-10 Years  |
| Reclaimed Water System   | 50-75 Years |
| Sewer System             | 25-50 Years |



# OTAY WATER DISTRICT

## Notes to Financial Statements

### Years Ended June 30, 2006 and 2005

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

##### G) Compensated Absences

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

##### H) Restricted Assets and Liabilities

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

##### I) Allowance for Doubtful Accounts

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

##### J) Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by management.

##### K) Property Taxes

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

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

##### L) Reclassifications

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

#### 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.

The District's Investment Policy and State statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, prime commercial paper, repurchase agreements, and negotiable certificates of deposits. Funds may also be invested in the State Treasurer's Local Agency Investment Fund (LAIF) and the San Diego County Pooled Fund.

**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

**2) CASH AND INVESTMENTS - Continued**

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

|                                   |                             |
|-----------------------------------|-----------------------------|
| Statement of Net Assets:          |                             |
| Cash and Cash Equivalents         | \$ 13,755,907               |
| Investments                       | <u>62,596,513</u>           |
| <b>Total Cash and Investments</b> | <b><u>\$ 76,352,420</u></b> |

Cash and investments consist of the following:

|                                      |                             |
|--------------------------------------|-----------------------------|
| Cash on Hand                         | \$ 2,800                    |
| Deposits with Financial Institutions | 1,109,799                   |
| Investments                          | <u>75,239,821</u>           |
| <b>Total Cash and Investments</b>    | <b><u>\$ 76,352,420</u></b> |

**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<br>Investment Type       | Maximum<br>Maturity    | Maximum<br>Percentage<br>Of Portfolio <sup>(1)</sup> | Maximum<br>Investment<br>In One Issuer |
|-------------------------------------|------------------------|--|--|
| Local Agency Bonds                  | 5 years                | None   | None                                   |
| U.S. Treasury Obligations           | 5 years <sup>(2)</sup> | None   | None                                   |
| Federal Agency Securities           | 5 years                | 70%  | None                                   |
| Certificates of Deposit             | 1 year                 | 30%  | None                                   |
| Repurchase Agreements               | 1 year                 | 15%  | None                                   |
| Medium-Term Notes                   | 5 years                | 15%  | None                                   |
| Commercial Paper                    | 180 days               | 15%  | 10%                                    |
| Money Market Mutual Funds           | N/A                    | 15%  | None                                   |
| County Pooled Investment Funds      | N/A                    | None   | None                                   |
| Local Agency Investment Fund (LAIF) | N/A                    | None   | None                                   |

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

<sup>(2)</sup> No more than 30% of the portfolio shall exceed two years to maturity.

# OTAY WATER DISTRICT

## Notes to Financial Statements

### Years Ended June 30, 2006 and 2005

#### 2) CASH AND INVESTMENTS - Continued

##### Investments Authorized by Debt Agreements

Investment 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 which will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows 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 (including investments held by the bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity.

| Investment Type                        | Remaining Maturity (in Months) |                      |                      |                        |
|--|--------------------------------|----------------------|----------------------|------------------------|
|  | 12 Months<br>Or Less           | 13 to 24<br>Months   | 25 to 60<br>Months   | More Than<br>60 Months |
| U.S. Treasury Securities               | \$ 8,938,125                   | \$ 8,938,125         | \$                   | \$                     |
| Federal Agency Securities              | 53,658,388                     | 32,804,485           | 20,853,903           |                        |
| Local Agency Investment Fund<br>(LAIF) | 12,544,721                     | 12,544,721           |                      |                        |
| San Diego County Pool                  | 98,587                         | 98,587               |                      |                        |
| <b>Total</b>                           | <b>\$ 75,239,821</b>           | <b>\$ 54,385,918</b> | <b>\$ 20,853,903</b> | <b>\$ 0</b>            |

##### Disclosures Relating to Credit Risk

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

| Investment Type                 | Minimum<br>Legal<br>Rating | Exempt<br>From<br>Disclosure | Rating as of Year End |                      |                      |
|---------------------------------|----------------------------|------------------------------|-----------------------|----------------------|----------------------|
|                                 |                            |                              | AAA                   | Aa                   | Not<br>Rated         |
| U. S. Treasury Securities       | \$ 8,938,125               |                              | \$ 8,938,125          | \$                   | \$                   |
| Federal Agency Securities       | 53,658,388                 | N/A                          | 53,658,388            |                      |                      |
| Local Agency Investment<br>Fund | 12,544,721                 | N/A                          |                       |                      | 12,544,721           |
| San Diego County Pool           | 98,587                     | N/A                          |                       |                      | 98,587               |
| <b>Total</b>                    | <b>\$ 75,239,821</b>       |                              | <b>\$ 8,938,125</b>   | <b>\$ 53,658,388</b> | <b>\$ 12,643,308</b> |

**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

**2) CASH AND INVESTMENTS - Continued**

**Concentration of Credit Risk**

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

| <u>Issuer</u>          | <u>Investment Type</u>    | <u>Reported Amount</u> |
|------------------------|---------------------------|------------------------|
| Federal Home Loan Bank | Federal Agency Securities | \$ 53,658,388          |

**Custodial Credit Risk**

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

As of June 30, 2006, \$796,084 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2006, District investments in the following investment types were held by the same broker-dealer (counter party) that was used by the District to buy the securities:

| <u>Investment Type</u>    | <u>Reported Amount</u> |
|---------------------------|------------------------|
| U.S. Treasury Securities  | \$ 8,938,125           |
| Federal Agency Securities | 53,658,388             |

**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.

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The District may invest up to \$40,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to



## OTAY WATER DISTRICT

### Notes to Financial Statements

### Years Ended June 30, 2006 and 2005

#### 2) CASH AND INVESTMENTS - Continued

cash within 24 hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California. The yield of LAIF during the quarter ended June 30, 2006 was 4.53%. The carrying value and estimated market value of the LAIF Pool at June 30, 2006 was \$63,481,426,759 and \$63,366,260,064, respectively. The District's share of the Pool at June 30, 2006 was approximately 0.020 percent.

The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the 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. Included in LAIF's investment portfolio are structured notes and asset-backed securities totaling \$225,000,000 and \$1,400,919,000, respectively. LAIF's and the District's exposure to risk (credit, market or legal) is not currently available.

The LAIF has oversight by the Local Investment Advisory Board. The LAIF Board consists of five members as designated by statute. LAIF is also regulated by California Government Code Section 16429.

#### San Diego County Pooled Fund

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

#### Collateral for Deposits

All cash and certificates of deposits are entirely insured or collateralized.

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

The District may waive the 110% collateral requirement for deposits which are insured up to \$100,000 by the FDIC.



**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

**3) CAPITAL ASSETS**

The following is a summary of changes in Capital Assets for the year ended June 30, 2006:

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>     | <u>Deletions</u>       | <u>Ending<br/>Balance</u> |
|---|------------------------------|----------------------|------------------------|---------------------------|
| Capital Assets, Not Depreciated             |                              |                      |                        |                           |
| Land  | \$ 12,215,546                | \$ 278,516           | \$                     | \$ 12,494,062             |
| Construction in Progress                    | 45,144,448                   | 38,365,427           | (24,640,634)           | 58,869,241                |
| Total Capital Assets Not Depreciated        | <u>57,359,994</u>            | <u>38,643,943</u>    | <u>(24,640,634)</u>    | <u>71,363,303</u>         |
| Capital Assets, Being Depreciated           |                              |                      |                        |                           |
| Infrastructure                              | 390,927,657                  | 28,868,342           |                        | 419,795,999               |
| Field Equipment                             | 9,030,438                    | 175,656              | (3,551)                | 9,202,543                 |
| Buildings                                   | 16,660,604                   | 809,395              |                        | 17,469,999                |
| Transportation Equipment                    | 2,782,493                    | 151,576              |                        | 2,934,069                 |
| Communication Equipment                     | 209,103                      | 311,437              |                        | 520,540                   |
| Office Equipment                            | 8,382,914                    | 295,692              | (213,644)              | 8,464,962                 |
| Total Capital Assets Being Depreciated      | <u>427,993,209</u>           | <u>30,612,098</u>    | <u>(217,195)</u>       | <u>458,388,112</u>        |
| Less Accumulated Depreciation:              |                              |                      |                        |                           |
| Infrastructure                              | 101,686,388                  | 8,471,264            |                        | 110,157,652               |
| Field Equipment                             | 8,123,774                    | 248,532              | (3,551)                | 8,368,755                 |
| Buildings                                   | 3,943,295                    | 550,013              |                        | 4,493,308                 |
| Transportation Equipment                    | 2,289,674                    | 267,533              |                        | 2,557,207                 |
| Communication Equipment                     | 183,142                      | 12,328               |                        | 195,470                   |
| Office Equipment                            | 6,646,219                    | 557,785              | (212,565)              | 6,991,439                 |
| Total Accumulated Depreciation              | <u>122,872,492</u>           | <u>10,107,455</u>    | <u>(216,116)</u>       | <u>132,763,831</u>        |
| Total Capital Assets Being Depreciated, Net | <u>305,120,717</u>           | <u>20,504,643</u>    | <u>(1,079)</u>         | <u>325,624,281</u>        |
| Total Capital Assets, Net                   | <u>\$ 362,480,711</u>        | <u>\$ 59,148,586</u> | <u>\$ (24,641,713)</u> | <u>\$ 396,987,584</u>     |

Depreciation expense for the year ended June 30, 2006 and 2005 was \$10,107,455 and \$10,524,134, respectively.

**4) OTHER NON-CURRENT ASSETS**

Contracts receivable totaled \$92,375 and \$105,600, net of no allowance as of June 30, 2006 and 2005, respectively.

Deferred bond issue costs totaled \$555,550 and \$586,950, net of accumulated amortization of \$326,552 and \$295,152 as of June 30, 2006 and 2005, respectively. There was a 1993 COPS refunding transaction as of June 30, 2006. The costs are amortized on the straight-line method based on the estimated term of the related bond debt. Amortization expense of \$31,400 and \$366,393 for the years ended June 30, 2006 and 2005 is included with miscellaneous expense.



**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

**5) LONG-TERM DEBT**

Long-term liabilities for the year ended June 30, 2006 were as follows:

|                                       | <u>Beginning<br/>Balance</u> | <u>Additions/<br/>Amortization</u> | <u>Retirements</u>  | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|---------------------------------------|------------------------------|------------------------------------|---------------------|---------------------------|--------------------------------|
| <b>General Obligation Bonds:</b>      |                              |                                    |                     |                           |                                |
| Improvement District No. 27           | \$ 9,955,000                 | \$                                 | \$ 365,000          | \$ 9,590,000              | \$ 380,000                     |
| Unamortized Bond Discount             | (125,748)                    | 7,397                              |                     | (118,351)                 |                                |
| Deferred Amount of Funding            | (735,770)                    | 40,876                             |                     | (694,894)                 |                                |
| Net General Obligation Bonds          | <u>9,093,482</u>             | <u>48,273</u>                      | <u>365,000</u>      | <u>8,776,755</u>          | <u>380,000</u>                 |
| <b>Certificates of Participation:</b> |                              |                                    |                     |                           |                                |
| 1996 Certificates of Participation    | 13,400,000                   |                                    | 300,000             | 13,100,000                | 300,000                        |
| 2004 Certificates of Participation    | 12,270,000                   |                                    | 445,000             | 11,825,000                | 490,000                        |
| Unamortized Discount                  | (16,393)                     | 745                                |                     | (15,648)                  |                                |
| Net Certificates of Participation     | <u>25,653,607</u>            | <u>745</u>                         | <u>745,000</u>      | <u>24,909,352</u>         | <u>790,000</u>                 |
| <b>Notes Payable</b>                  |                              |                                    |                     |                           |                                |
| State Water Resource Control Board    | 1,956,871                    |                                    | 297,834             | 1,659,037                 | 308,259                        |
| <b>Capital Leases</b>                 |                              |                                    |                     |                           |                                |
| Vactor                                | <u>100,666</u>               |                                    | <u>49,077</u>       | <u>51,589</u>             | <u>51,589</u>                  |
| <b>Total Long-Term Liabilities</b>    | <u>\$ 36,804,626</u>         | <u>\$ 49,018</u>                   | <u>\$ 1,456,911</u> | <u>\$ 35,396,733</u>      | <u>\$ 1,529,848</u>            |

**General Obligation Bonds**

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

The refunding resulted in a deferred amount of \$1,021,903, which is being amortized over the remaining life of the refunded debt. Amortization for the years ended June 30, 2006 and 2005 was \$40,876 for each year and is included in miscellaneous non-operating expenses. As of June 30, 2006 and 2005, the amortized deferred amount of refunding is \$694,894, and \$735,770, respectively.

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



**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

**5) LONG-TERM DEBT - Continued**

Future debt service requirements for the bonds are as follows:

| <u>For the Year<br/>Ended June 30,</u> | <u>Principal</u>    | <u>Interest</u>     |
|--|---------------------|---------------------|
| 2007                                   | \$ 380,000          | \$ 457,935          |
| 2008                                   | 400,000             | 440,385             |
| 2009                                   | 415,000             | 422,047             |
| 2010                                   | 435,000             | 402,705             |
| 2011                                   | 455,000             | 382,235             |
| 2012-2016                              | 2,610,000           | 1,557,095           |
| 2017-2021                              | 3,320,000           | 825,000             |
| 2022-2023                              | <u>1,575,000</u>    | <u>79,625</u>       |
|  | <u>\$ 9,590,000</u> | <u>\$ 4,567,027</u> |

The following General Obligation Bonds have been authorized by the Board of Directors, but were unissued as of June 30, 2006:

| <u>Date Authorized</u> | <u>Improvement<br/>District (ID)</u> | <u>Construction<br/>Purpose</u> | <u>Bond Amount</u> |
|------------------------|--------------------------------------|---------------------------------|--------------------|
| December 30, 1960      | 5                                    | Water System                    | \$ 605,000         |
| December 20, 1960      | 6                                    | Sewer System                    | 705,000            |
| August 23, 1960        | 1 - 3                                | Sewer System                    | 405,000            |
| August 23, 1960        | 1 - 4                                | Water System                    | 75,000             |
| March 18, 1970         | U - 18                               | Sewer System                    | 2,700,000          |
| April 19, 1971         | U - 19                               | Water System                    | 1,000,000          |
| May 17, 1971           | U - 20                               | Water System                    | 13,000,000         |
| June 5, 1972           | U - 22                               | Water System                    | 6,000,000          |
| May 1, 1978            | U - 25                               | Water System                    | 5,050,000          |
| November 1, 1989       | U - 27                               | Water System                    | 88,500,000         |

**Certificates of Participation (COPs)**

In June 1996, COPs with face value of \$15,400,000 were also sold by the Otay Service Corporation to finance the cost of design, acquisition, and construction of certain capital improvements. An installment purchase agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPs. The installment payments are to be paid from taxes and "net revenues," as described in the installment agreement. The certificates bear interest at a variable weekly rate not to exceed 12%. The interest rate at June 30, 2006 was 3.95%. The installment payments are to be paid annually at \$350,000 to \$900,000 from September 1, 1996 through September 1, 2026.



**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

5) **LONG-TERM DEBT - Continued**

**Certificates of Participation (COPs) - Continued**

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

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

| For the Year<br>Ended June 30 | 1996 COPs            |                     | 2004 COPs            |                     |
|-------------------------------|----------------------|---------------------|----------------------|---------------------|
|                               | Principal            | Interest*           | Principal            | Interest            |
| 2007                          | \$ 300,000           | \$ 517,450          | \$ 490,000           | \$ 448,384          |
| 2008                          | 300,000              | 505,600             | 500,000              | 433,534             |
| 2009                          | 400,000              | 493,750             | 515,000              | 418,309             |
| 2010                          | 400,000              | 477,950             | 530,000              | 402,634             |
| 2011                          | 400,000              | 462,150             | 545,000              | 386,236             |
| 2012-2016                     | 2,500,000            | 2,050,050           | 3,020,000            | 1,635,461           |
| 2017-2021                     | 3,300,000            | 1,489,150           | 3,645,000            | 985,556             |
| 2022-2026                     | 4,400,000            | 758,400             | 2,580,000            | 180,097             |
| 2027                          | <u>1,100,000</u>     | <u>43,450</u>       |                      |                     |
|                               | <u>\$ 13,100,000</u> | <u>\$ 6,797,950</u> | <u>\$ 11,825,000</u> | <u>\$ 4,890,211</u> |

\* Variable Rate - Interest reflected at June 30, 2006 at a rate of 3.95%.

**Note Payable**

At June 30, 2006, the District had a 3.5% note payable to the State Water Resources Control Board. This note is unsecured and payable in annual installments of \$366,325 including principal and interest from 1994 through 2010. The total amount outstanding at June 30, 2006 and aggregate maturities of the note for the fiscal years subsequent to June 30, 2006, are as follows:

| For the Year Ended<br>June 30, | Principal           | Interest          |
|--------------------------------|---------------------|-------------------|
| 2007                           | \$ 308,259          | \$ 58,066         |
| 2008                           | 319,048             | 47,277            |
| 2009                           | 330,214             | 36,111            |
| 2010                           | 341,772             | 24,553            |
| 2011                           | <u>359,744</u>      | <u>12,591</u>     |
|                                | <u>\$ 1,659,037</u> | <u>\$ 178,598</u> |



**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

**5) LONG-TERM DEBT - Continued**

**Capital Lease Payable**

The District leases a Vactor 2110 truck under a capital lease that expires in February of 2007. The economic substance of the lease is that the District is financing the acquisition of the asset through the lease, and accordingly, it is recorded in the District's assets and liabilities. The lease contains a 5.13% interest rate and is payable in annual installments of \$54,236, including principal and interest, from 2005 through 2007.

The annual future minimum lease payments together with the present value of the minimum lease payments under capital at June 30, 2006 are as follows:

|   |                  |
|---|------------------|
| 2007                                    | \$ <u>54,236</u> |
| Total Minimum Lease Payments            | 54,236           |
| Less: Amount Representing Interest      | <u>(2,647)</u>   |
| Present Value of Minimum Lease Payments | \$ <u>51,589</u> |

The asset acquired through the capital lease is as follows:

|                                |                   |
|--------------------------------|-------------------|
| Asset:                         |                   |
| Field Equipment                | 245,977           |
| Less: Accumulated Depreciation | <u>(105,419)</u>  |
| Total                          | \$ <u>140,558</u> |



**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

**6) SEGMENT INFORMATION**

The District issued Certificates of Participation to finance certain capital improvements. Both the water and sewer departments are accounted for in a single fund. The sewer department operates the District's sewage treatment plant, sewage pumping stations, and collection systems, while the water department accounts for all other services. However, investors in the Certificates of Participation rely solely on the revenues generated by the individual activities for repayment.

Summary financial information for the water and sewer departments is presented below.

**Condensed Statement of Net Assets**

|   | <u>Water</u>          | <u>Sewer</u>      | <u>Total</u>          |
|---|-----------------------|-------------------|-----------------------|
| <b>Assets:</b>  |                       |                   |                       |
| Current Assets  | \$ 85,132,865         | \$ 103,911        | \$ 85,236,776         |
| Current Restricted Assets                                 | 318,090               |                   | 318,090               |
| Capital Assets  | 396,238,702           | 748,882           | 396,987,584           |
| Other Non-current Assets                                  | <u>838,990</u>        |                   | <u>838,990</u>        |
| Total Assets  | <u>482,528,647</u>    | <u>852,793</u>    | <u>483,381,440</u>    |
| <b>Liabilities:</b>                                       |                       |                   |                       |
| Current Liabilities                                       | 18,361,578            | 307,073           | 18,668,651            |
| Current Liabilities Payable from<br>Restricted Assets     | 8,046,662             |                   | 8,046,662             |
| Non-current Liabilities Payable<br>from Restricted Assets | 726,415               | 7,500             | 733,915               |
| Non-current Liabilities                                   | <u>33,866,885</u>     |                   | <u>33,866,885</u>     |
| Total Liabilities   | <u>61,001,540</u>     | <u>314,573</u>    | <u>61,316,113</u>     |
| <b>Net Assets:</b>  |                       |                   |                       |
| Invested in Capital Assets, Net of<br>Related Debt        | 360,841,963           | 748,882           | 361,590,845           |
| Unrestricted  | <u>60,685,144</u>     | <u>(210,662)</u>  | <u>60,474,482</u>     |
| Total Net Assets  | <u>\$ 421,527,107</u> | <u>\$ 538,220</u> | <u>\$ 422,065,327</u> |



**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

**6) SEGMENT INFORMATION - Continued**

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

|                                    | <u>Water</u>          | <u>Sewer</u>       | <u>Total</u>          |
|------------------------------------|-----------------------|--------------------|-----------------------|
| Operating Revenues                 | \$ 45,529,994         | \$ 2,331,094       | \$ 47,861,088         |
| Depreciation                       | (10,107,455)          |                    | (10,107,455)          |
| Other Operating Expenses           | <u>(47,595,682)</u>   | <u>(1,899,957)</u> | <u>(49,495,639)</u>   |
| Operating Income                   | <u>(12,019,134)</u>   | <u>277,128</u>     | <u>(11,742,006)</u>   |
| Non-operating Revenues (Expenses): |                       |                    |                       |
| Investment Income                  | 3,173,752             | 14,893             | 3,188,645             |
| Taxes and Assessments              | 2,420,271             | 359,364            | 2,779,635             |
| Availability Charges               | 557,851               | 51,248             | 609,099               |
| Gain on Sale of Capital Assets     | 142,922               |                    | 142,922               |
| Other Non-operating Revenues       | 1,835,710             |                    | 1,835,710             |
| Interest Expense                   | (959,225)             |                    | (959,225)             |
| Other Non-operating Expenses       | (217,818)             | (61,688)           | (279,506)             |
| Transfers                          | 743,330               | (743,330)          | 0                     |
| Capital Contributions              | <u>15,401,580</u>     |                    | <u>15,401,580</u>     |
| Change in Net Assets               | 11,079,239            | (102,385)          | 10,976,854            |
| Total Net Assets, Beginning        | <u>410,447,868</u>    | <u>640,605</u>     | <u>411,088,473</u>    |
| Total Net Assets, Ending           | <u>\$ 421,527,107</u> | <u>\$ 538,220</u>  | <u>\$ 422,065,327</u> |

**Condensed Statement of Cash Flows**

|  | <u>Water</u>         | <u>Sewer</u>  | <u>Total</u>         |
|--|----------------------|---------------|----------------------|
| Net Cash Provided (Used) by:             |                      |               |                      |
| Operating Activities                     | 2,685,328            | 215,440       | 2,900,768            |
| Non-Capital Financing Activities         | 3,884,803            | (281,581)     | 3,603,222            |
| Capital and Related Financing Activities | (31,065,846)         | 51,248        | (31,014,598)         |
| Investing Activities                     | <u>13,724,131</u>    | <u>14,893</u> | <u>13,739,024</u>    |
| Net Increase (Decrease)                  | (10,771,584)         | 0             | (10,771,584)         |
| Beginning Cash and Cash Equivalents      | <u>24,527,491</u>    | <u>0</u>      | <u>24,527,491</u>    |
| Ending Cash and Cash Equivalents         | <u>\$ 13,755,907</u> | <u>\$ 0</u>   | <u>\$ 13,755,907</u> |



**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

**7) NET ASSETS**

A summary of changes in net assets for the year ended June 30, 2006 is as follows:

| Description                                  | Investment in<br>Capital Assets<br>(Net of Related Debt) | Restricted<br>Net Assets | Unrestricted<br>Net Assets | Total                 |
|--|--|--------------------------|----------------------------|-----------------------|
| Beginning of Year                            | \$ 325,676,089   | \$ 16,188,364            | \$ 69,224,020              | \$ 411,088,473        |
| Income (Loss) Before Contributions           | (10,107,455)   | 2,429,509                | 3,253,220                  | (4,424,726)           |
| Capital Contributions                        |  |                          |                            |                       |
| Construction of Water and Sewer Systems      | 5,933,655  |                          |                            | 5,933,655             |
| Capacity Fees and Capital Contributions      |  | 8,205,779                |                            | 8,205,779             |
| Betterment Fees                              |  |                          |                            |                       |
| Annexation Fees                              |  |                          | 1,262,146                  | 1,262,146             |
| Decrease in Related Capital Debt/(Transfers) | 1,407,887  |                          | (1,407,887)                | 0                     |
| Acquisition and Construction/(Transfers)     | <u>38,680,669</u>  | <u>(26,823,652)</u>      | <u>(11,857,017)</u>        | <u>0</u>              |
| End of Year                                  | <u>\$ 361,590,845</u>                                    | <u>\$ 0</u>              | <u>\$ 60,474,482</u>       | <u>\$ 422,065,327</u> |

**Designated Net Assets**

In addition to the restricted net assets, unrestricted net assets have been designated by the Board of Directors for the following purposes as of June 30, 2006 and 2005:

|                     | 2006                 | 2005                 |
|---------------------|----------------------|----------------------|
| Replacement Reserve | \$ 22,876,118        | \$ 26,888,665        |
| Insurance Reserve   | 16,428,945           | 16,532,037           |
| Expansion Reserve   | <u>5,772,470</u>     | <u>4,619,864</u>     |
| Total               | <u>\$ 45,077,533</u> | <u>\$ 48,040,566</u> |

**8) DEFINED BENEFIT PENSION PLAN**

**Plan Description**

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

## OTAY WATER DISTRICT

### Notes to Financial Statements

### Years Ended June 30, 2006 and 2005

#### 8) DEFINED BENEFIT PENSION PLAN - Continued

##### Funding Policy

Active members in the Plan are required to contribute 8% of their annual covered salary. The District has elected to contribute 7% on behalf of its employees. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2006 was 20.869%. The contribution requirements of the Plan members are established by State statute and the employer contribution rate is established and may be amended by the CalPERS.

##### Annual Pension Costs

For the fiscal year ended June 30, 2006, the District's annual pension cost and actual contribution was \$2,120,529. The required contribution for the fiscal year ended June 30, 2006, was determined as part of the June 30, 2003 actuarial valuation.

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

|                           |   |
|---------------------------|---|
| Valuation Date            | June 30, 2003   |
| Actuarial Cost Method     | Entry Age Actuarial Cost Method   |
| Amortization Method       | Level Percent of Payroll  |
| Average Remaining Period  | 18 Years as of the Valuation Date   |
| Asset Valuation Method    | 3 Year Smoothed Market  |
| Actuarial Assumptions:    |   |
| Investment Rate of Return | 7.75% (Net of Administrative Expenses)  |
| Projected Salary Increase | 3.25% to 14.20% Depending on Age, Service, and Type of Employment   |
| Inflation                 | 3.00%   |
| Payroll Growth            | 3.25%   |
| Individual Salary Growth  | A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%. |

Initial unfunded liabilities are amortized over a closed period that depends on the Plan's date of entry into CalPERS. Subsequent Plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of the plan assets, then the amortization payment of the total unfunded liability may be lower than the payment calculated over a 30-year amortization period.

##### THREE YEAR TREND INFORMATION FOR PERS

| Fiscal<br>Year | Annual Pension<br>Cost (APC) | Percentage of<br>APC Contributed | Net Pension<br>Obligation |
|----------------|------------------------------|----------------------------------|---------------------------|
| 6/30/04        | 1,095,740                    | 100%                             | 0                         |
| 6/30/05        | 1,684,657                    | 100%                             | 0                         |
| 6/30/06        | 2,120,529                    | 100%                             | 0                         |



**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

**9) POST EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 8, it is the District's practice and policy to provide certain life insurance and health care benefits for eligible retired employees, directors and eligible dependents. These benefits vary based on the hire date of the employee. All retired employees receive life insurance benefits provided by the District (\$3,000 to age 70 for employees and \$1,000 to age 70 for spouse).

For retiring employees hired prior to January 1, 1981, and who are age 55 or over with five years of continuous service at retirement, the District provides dental and health care benefits and prescription drug coverage.

For retiring employees hired on or after January 1, 1981 and before July 1, 1993, the District provides health care benefits and prescription drug coverage if, at retirement, the employees have neither:

Attained age 60 with age plus years of credited service equal to or greater than 70 (with dental benefits provided) or,

Attained age 55 but not age 60 with age plus years of credited service equal to or greater than 75 (without dental benefits provided).

For retired directors who commenced office prior to January 1, 1995, and have attained age 60 with at least twelve years service as a director, the District provides dental and health care benefits and prescription drug coverage.

Expenses for these post retirement benefits are recognized as insurance premiums and are paid as retirees report claims under the health insurance program described in Note 12. Post retirement benefits expense of \$641,464 and \$551,062, were recognized for 59 and 53 eligible retirees, for the year ended June 30, 2006 and 2005, respectively.

**10) WATER CONSERVATION AUTHORITY**

The District formed the Water Conservation Authority (the "Authority"), a Joint Powers Authority, with other local entities to construct, maintain and operate a xeriscape demonstration garden in the furtherance of water conservation. The authority is a non-profit public charity organization and is exempt from income taxes. During the year ended June 30, 2006 and 2005, the District contributed \$0 and \$35,894, respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

A summary of the Authority's June 30, 2005 audited financial statement is as follows (latest report available):

|                                   |              |
|-----------------------------------|--------------|
| Assets                            | \$ 2,619,829 |
| Liabilities                       | 34,460       |
| Revenues, Gains and Other Support | 446,595      |
| Changes in Net Assets             | (305,916)    |

**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

## 11) COMMITMENTS AND CONTINGENCIES

### Construction Commitments

The District had committed to capital projects under construction with an estimated cost to complete of \$5,167,946 at June 30, 2006.

### 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, 2005, 1,750 EDUs had been relinquished and refunded, 13,323 EDUs had been connected, and 2,794 EDUs had neither been relinquished nor connected. At June 30, 2006, 1,750 EDUs had been relinquished and refunded, 13,412 EDUs had been connected, and 2,705 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, 2006, none of the 18 outstanding developer agreements had been accepted, however it is anticipated that the District will be liable for an amount not to exceed \$2,949,428 at the point of acceptance, accordingly, the District did not accrue a liability as of year end.

## 12) 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. The District pays an annual premium for commercial insurance covering general liability, excess liability, property, automobile, public employee dishonesty, and various other claims. Coverage limits range up to \$100 million.

**OTAY WATER DISTRICT**  
**Notes to Financial Statements**  
**Years Ended June 30, 2006 and 2005**

**12) RISK MANAGEMENT - Continued**

**Workers' Compensation**

The District is a member of the Association of California Water Agencies Joint Powers Insurance District (Joint Powers). The Joint Powers is a risk-pooling self-insurance district, created under the provision of California Government Code Sections 6500 et. Seq. The Joint Powers is governed by a board composed of members from participating agencies. The purpose of the Joint Powers is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The District is insured up to \$25,000,000 for worker's compensation with no deductible. Separate financial statements of the Joint Powers may be obtained at ACWA Joint Powers Insurance Authority, 5620 Birdcage Street, Suite 200, Citrus Heights, CA 95610-7632.

**Health Insurance**

The District maintains a self-insurance program covering all of its employees, retirees, and other dependents. Health claims are processed and administered through a health insurance administrator and paid by the District upon presentation. The District has obtained a stop-loss insurance policy to cover individuals with claims exceeding \$45,000. The District has estimated accrued claims to be \$422,327 and \$299,700 at June 30, 2006 and 2005, respectively. Accrued health costs are included in other accrued liabilities.

**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.

**13) INTEREST EXPENSE**

Interest expense for the year ended June 30, 2006 and 2005, is as follows:

|  | <u>2006</u>         | <u>2005</u>         |
|--|---------------------|---------------------|
| Amount Expensed  | \$ 959,225          | \$ 1,327,844        |
| Amount Capitalized as a Cost of<br>Construction Projects | <u>460,535</u>      | <u>110,764</u>      |
| Interest Paid  | <u>\$ 1,419,760</u> | <u>\$ 1,438,608</u> |

Required  
Supplementary  
Information

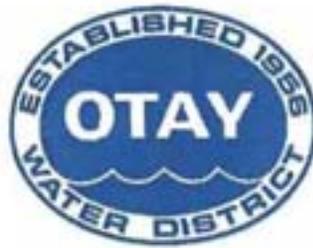




**OTAY WATER DISTRICT**  
**Required Supplementary Information**  
**Years Ended June 30, 2006 and 2005**

**SCHEDULE OF FUNDING PROGRESS FOR PERS**

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Assets<br/>(A)</u> | <u>Actuarial<br/>Accrued<br/>Liability<br/>(AAL) Entry<br/>Age<br/>(B)</u> | <u>Unfunded<br/>AAL<br/>(UAAL)<br/>(B - A)</u> | <u>Funded<br/>Ratio<br/>(A/B)</u> | <u>Covered<br/>Payroll<br/>(C)</u> | <u>UAAL as a<br/>Percentage of<br/>Covered<br/>Payroll<br/>((B-A)/C)</u> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 6/30/02                                 |  |  |  |                                   |                                    |  |
| Miscellaneous                           | \$ 28,360,731                                    | \$ 36,760,469  | \$ 8,399,738                                   | 77.2%                             | \$ 8,594,245                       | 97.7%  |
| 6/30/03                                 |  |  |  |                                   |                                    |  |
| Miscellaneous                           | \$ 29,042,368                                    | \$ 41,428,694  | \$ 12,386,326                                  | 70.1%                             | \$ 9,058,232                       | 136.7%   |
| 6/30/04                                 |  |  |  |                                   |                                    |  |
| Miscellaneous                           | \$ 31,591,156                                    | \$ 45,156,690  | \$ 13,565,534                                  | 70.0%                             | \$ 9,764,596                       | 138.9%   |

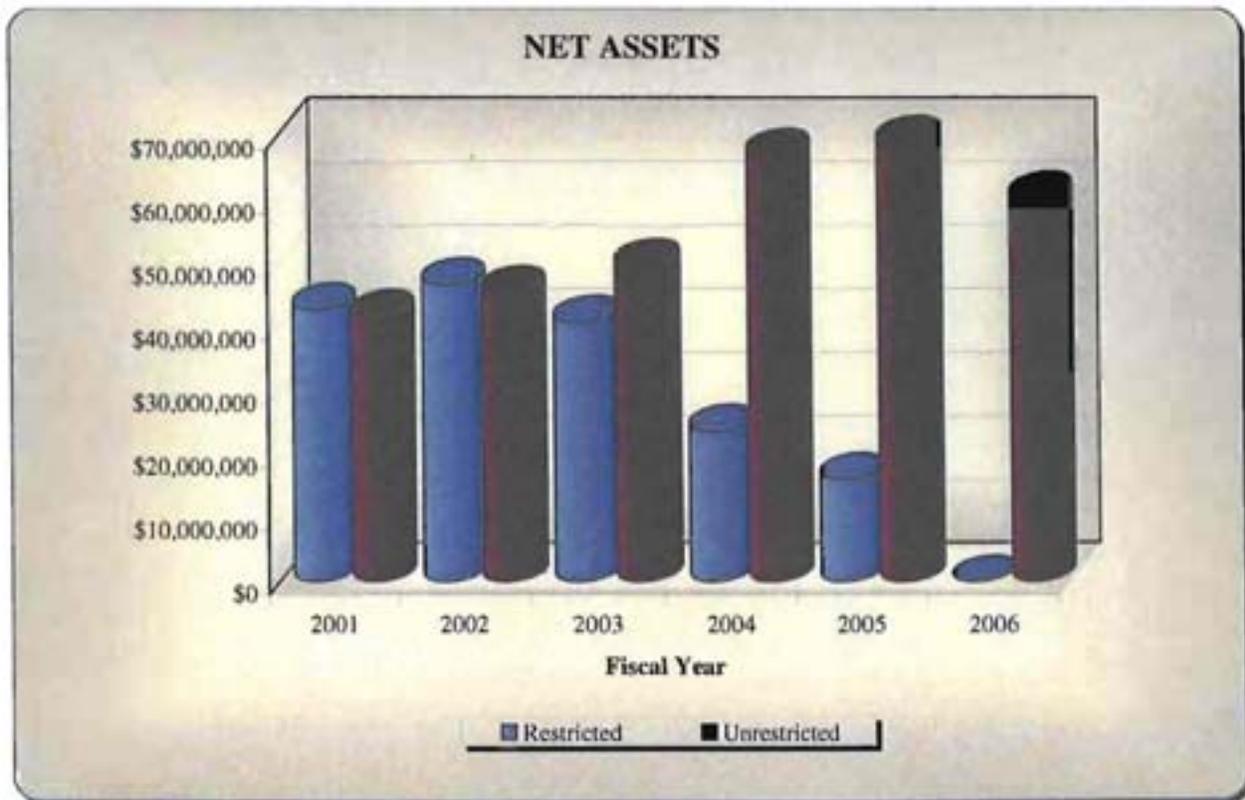


**STATISTICAL SECTION**



## OTAY WATER DISTRICT Net Assets by Component Last Six Fiscal Years

| Fiscal Year | Invested in Capital Assets<br>Net of Related Debt | Restricted | Unrestricted  | Total<br>Net Assets |
|-------------|---|------------|---------------|---------------------|
| 2006        | \$ 361,590,845                                    | \$ - (2)   | \$ 60,474,482 | \$ 422,065,327      |
| 2005        | 325,676,089                                       | 16,188,364 | 69,224,020    | 411,088,473         |
| 2004        | 291,863,666                                       | 23,853,441 | 67,244,139    | 382,961,246         |
| 2003        | 269,579,907                                       | 40,945,837 | 49,828,535    | 360,354,279         |
| 2002        | 245,290,752                                       | 46,866,439 | 45,580,508    | 337,737,699         |
| 2001 (1)    | 237,230,807                                       | 42,923,480 | 41,854,311    | 322,008,598         |



(1) The District implemented GASB 34 in Fiscal Year 2001.

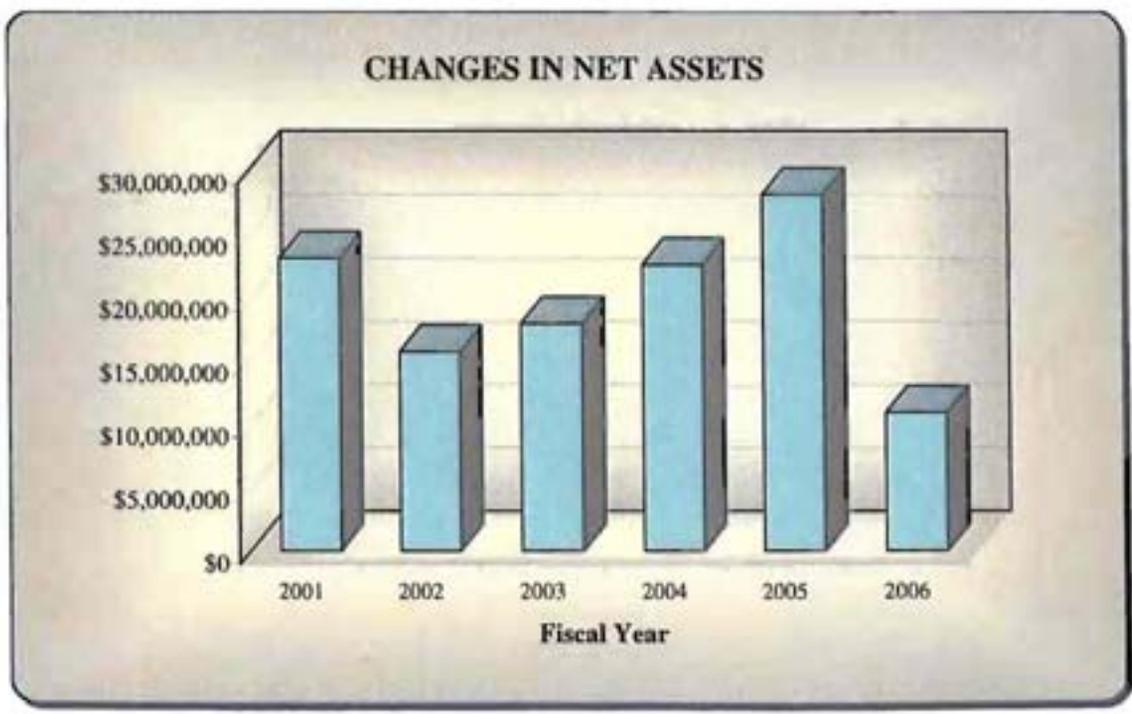
(2) During the current year all restricted funds were used to pay for major capital improvements in the District's Potable Water System and Reclaimed Water System.

Source: Otay Water District



## OTAY WATER DISTRICT Changes in Net Assets Last Six Fiscal Years

| Fiscal Year | Operating Revenues | Operating Expenses | Operating Income | Total Non-Operating Revenues/ (Expenses) | Income(Loss) Before Capital Contributions | Capital Contributions | Change in Net Assets |
|-------------|--------------------|--------------------|------------------|--|---|-----------------------|----------------------|
| 2006        | \$47,861,088       | \$59,603,094       | \$ (11,742,006)  | \$ 7,317,280                             | \$ (4,424,726)                            | \$ 15,401,580         | \$ 10,976,854        |
| 2005        | 43,335,915         | 56,510,886         | (13,174,971)     | 6,332,893                                | (6,842,078)                               | 34,969,305            | 28,127,227           |
| 2004        | 41,539,293         | 51,516,096         | (9,976,803)      | 3,484,492                                | (6,492,311)                               | 29,099,278            | 22,606,967           |
| 2003        | 36,961,980         | 46,143,486         | (9,181,506)      | 4,517,049                                | (4,664,457)                               | 22,616,580            | 17,952,123           |
| 2002        | 37,312,385         | 43,509,038         | (6,196,653)      | 6,193,303                                | (3,350)                                   | 15,732,451            | 15,729,101           |
| 2001        | 22,598,438         | 40,203,049         | (17,604,611)     | 10,526,110                               | (7,078,501)                               | 30,209,604            | 23,131,103           |

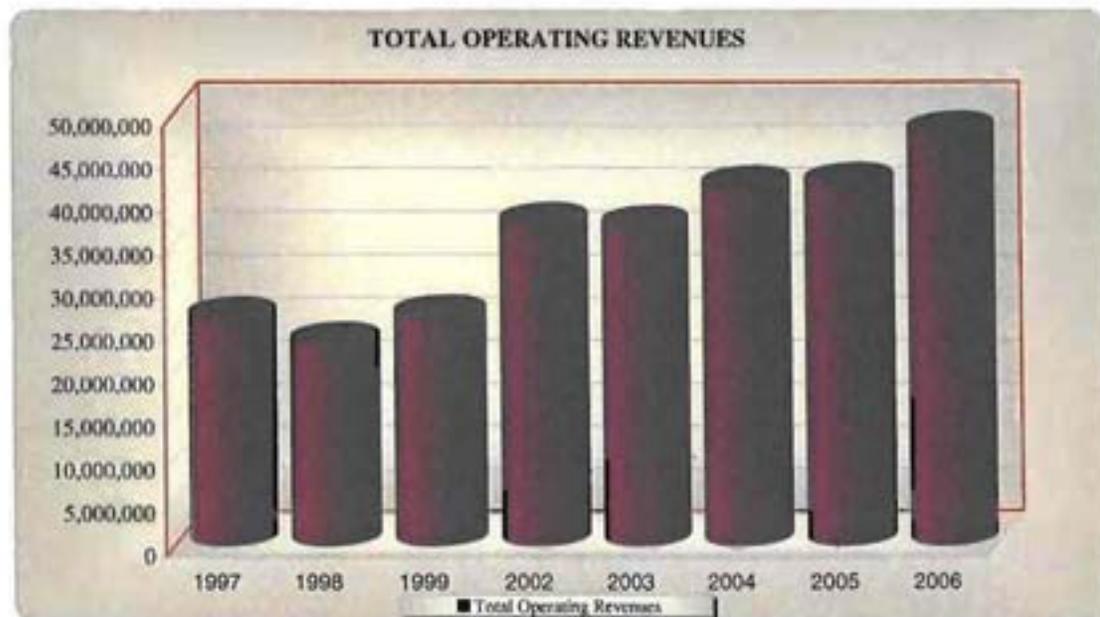


*Note: The District implemented GASB 34 in fiscal year 2001.*

*Source: Otay Water District*

### OTAY WATER DISTRICT Operating Revenues by Source Last Ten Fiscal Years

| Fiscal Year | Water Sales    | Wastewater Revenue | Connection and Other Fees | Total         | Percent Change |
|-------------|----------------|--------------------|---------------------------|---------------|----------------|
| 2006        | \$ 43,755,610  | \$ 2,328,582       | \$ 1,776,896              | \$ 47,861,088 | 14.2%          |
| 2005        | 39,348,056     | 2,017,992          | 540,055                   | 41,906,103    | 0.9%           |
| 2004        | 39,044,712     | 1,774,366          | 720,215                   | 41,539,293    | 12.4%          |
| 2003        | 34,621,890     | 1,648,227          | 691,863                   | 36,961,980    | -0.9%          |
| 2002        | 34,980,289     | 2,031,855          | 300,241                   | 37,312,385    | 65.1%          |
| 2001        | 20,645,462 (1) | 1,578,581          | 374,395                   | 22,598,437    | -31.5%         |
| 2000        | 30,928,092     | 1,742,537          | 333,389                   | 33,004,018    | 24.2%          |
| 1999        | 24,732,564     | 1,544,975          | 293,908                   | 26,571,447    | 13.6%          |
| 1998        | 21,551,988     | 1,679,145          | 161,022                   | 23,392,155    | -11.1%         |
| 1997        | 24,530,385     | 1,676,670          | 120,636                   | 26,327,691    | 2.8%           |

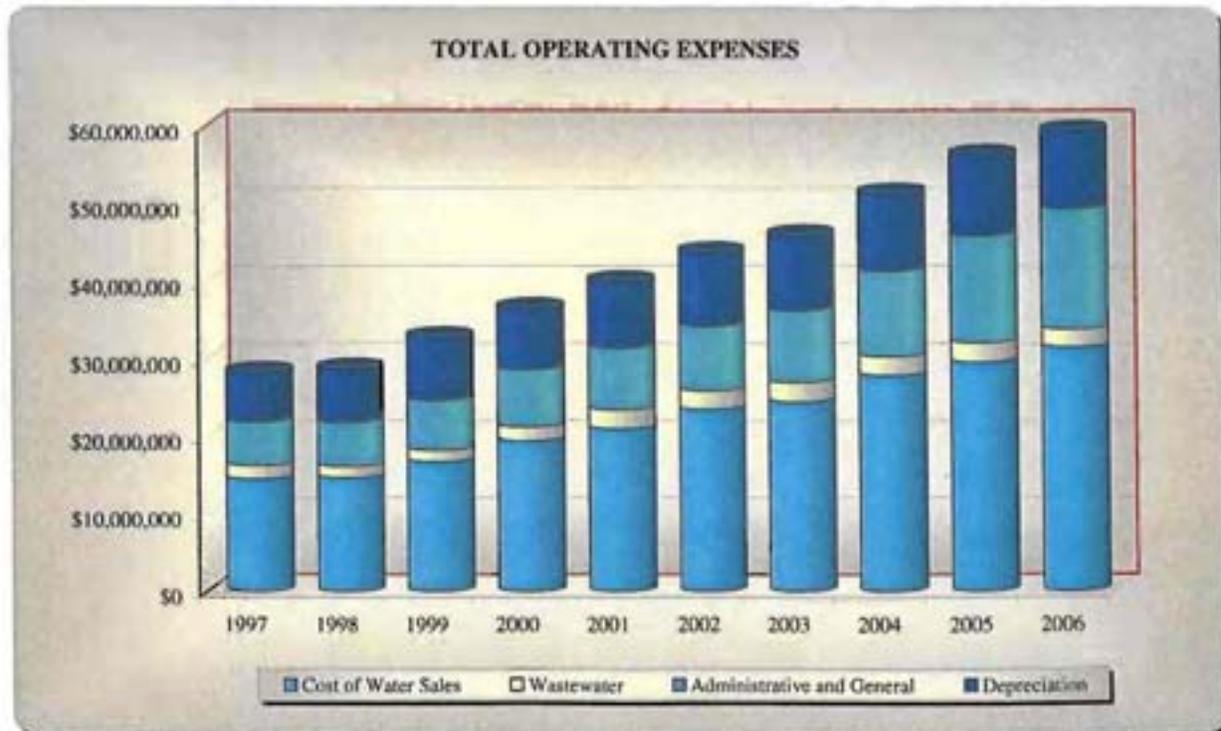


(1) During the year ended June 30, 2001, the District Board authorized three separate potable water rebates totaling \$9,700,089. The rebates were accounted for as a reduction of Water Sales.

Source: Otay Water District

## 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 |
|-------------|---------------------|--------------|----------------------------|---------------|---------------|----------------|
| 2006        | \$ 31,630,074       | \$ 2,313,278 | \$ 15,552,287              | \$ 10,107,455 | \$ 59,603,094 | 5.5%           |
| 2005        | 29,655,869          | 2,521,861    | 13,809,022                 | 10,524,134    | 56,510,886    | 9.7%           |
| 2004        | 27,899,376          | 2,446,603    | 11,081,599                 | 10,088,518    | 51,516,096    | 11.6%          |
| 2003        | 24,477,487          | 2,548,881    | 9,310,381                  | 9,806,737     | 46,143,486    | 5.0%           |
| 2002        | 23,516,357          | 2,404,720    | 8,388,045                  | 9,645,918     | 43,955,040    | 9.3%           |
| 2001        | 20,998,534          | 2,447,034    | 8,014,245                  | 8,743,236     | 40,203,049    | 9.5%           |
| 2000        | 19,416,956          | 1,833,775    | 7,444,505                  | 8,023,280     | 36,718,516    | 11.5%          |
| 1999        | 16,730,248          | 1,519,670    | 6,466,836                  | 8,225,750     | 32,942,504    | 14.0%          |
| 1998        | 14,658,041          | 1,488,123    | 5,737,077                  | 7,007,965     | 28,891,206    | 1.6%           |
| 1997        | 14,487,786          | 1,766,317    | 5,655,773                  | 6,527,408     | 28,437,284    | 2.5%           |

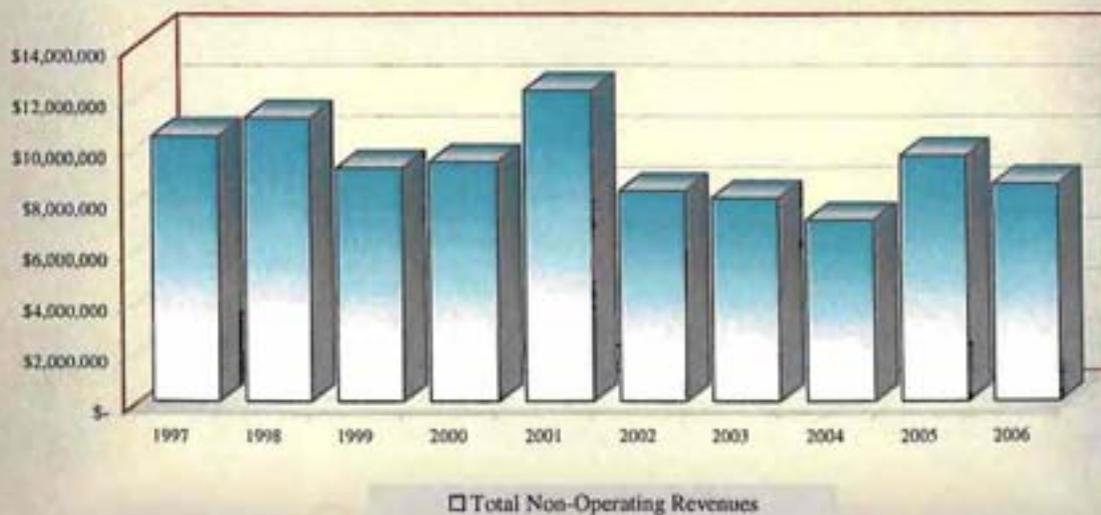


Source: Otay Water District

**OTAY WATER DISTRICT  
Non-Operating Revenues by Source  
Last Ten Fiscal Years**

| <u>Year</u> | <u>Investment<br/>Income</u> | <u>Taxes and<br/>Assessments</u> | <u>Availability<br/>Charges</u> | <u>Miscellaneous</u> | <u>Total</u> | <u>Percent<br/>Change</u> |
|-------------|------------------------------|----------------------------------|---------------------------------|----------------------|--------------|---------------------------|
| 2006        | \$ 3,188,645                 | \$ 2,779,635                     | \$ 609,099                      | \$ 1,978,632         | \$ 8,556,011 | 11.3%                     |
| 2005        | \$ 2,052,292                 | \$ 2,326,526                     | \$ 556,590                      | \$ 4,714,941 (1)     | \$ 9,650,349 | 35.6%                     |
| 2004        | 1,097,449                    | 3,071,685                        | 1,132,278                       | 1,816,967            | 7,118,379    | -10.8%                    |
| 2003        | 2,578,231                    | 2,600,411                        | 1,069,750                       | 1,731,384            | 7,979,776    | -3.6%                     |
| 2002        | 4,466,383                    | 2,381,170                        | 1,052,222                       | 373,818              | 8,273,593    | -32.3%                    |
| 2001        | 7,606,185                    | 3,054,917                        | 1,116,084                       | 437,760              | 12,214,946   | 29.9%                     |
| 2000        | 5,088,516                    | 3,164,910                        | 949,612                         | 197,857              | 9,400,895    | 2.6%                      |
| 1999        | 5,142,904                    | 2,523,746                        | 1,084,910                       | 412,530              | 9,164,090    | -17.6%                    |
| 1998        | 6,462,771                    | 2,795,952                        | 1,284,987                       | 579,775              | 11,123,485   | 6.9%                      |
| 1997        | 6,288,527                    | 3,034,605                        | 1,084,262                       | 0                    | 10,407,394   | 6.7%                      |

**TOTAL NON-OPERATING REVENUES**

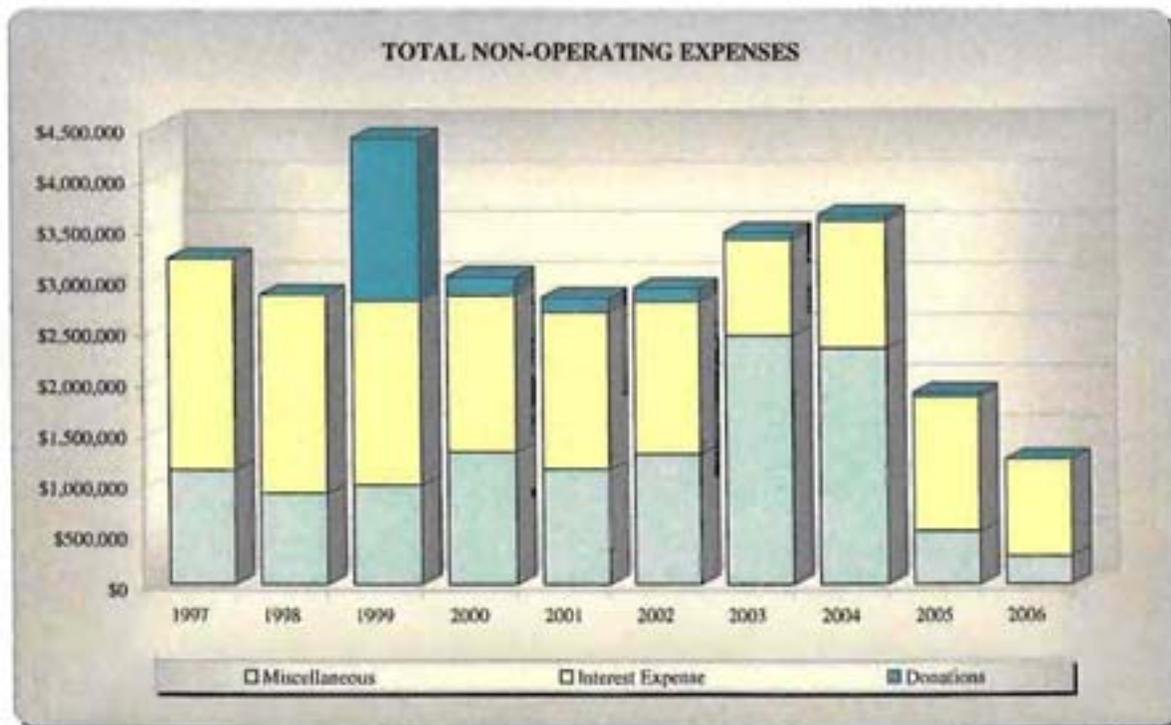


(1) The District sold capital assets during 2005 which resulted in a gain of \$2,196,655.

Source: Otay Water District

### OTAY WATER DISTRICT Non-Operating Expenses by Function Last Ten Fiscal Years

| Year | Donations     | Interest Expense | Miscellaneous | Total        | Percent Change |
|------|---------------|------------------|---------------|--------------|----------------|
| 2006 | \$ -          | \$ 959,225       | \$ 279,506    | \$ 1,238,731 | -34.4%         |
| 2005 | 35,894        | 1,327,844        | 523,905       | 1,887,643    | -48.1%         |
| 2004 | 59,220        | 1,252,307        | 2,322,360     | 3,633,887    | 4.9%           |
| 2003 | 68,756        | 947,099          | 2,446,872     | 3,462,727    | 18.8%          |
| 2002 | 131,225       | 1,503,063        | 1,280,104     | 2,914,392    | 3.3%           |
| 2001 | 145,500       | 1,543,336        | 1,131,114     | 2,819,950    | -6.8%          |
| 2000 | 184,507       | 1,540,592        | 1,301,961     | 3,027,060    | -31.0%         |
| 1999 | 1,602,883 (1) | 1,809,747        | 974,558       | 4,387,187    | 53.9%          |
| 1998 | 0             | 1,952,742        | 897,011       | 2,849,753    | -11.0%         |
| 1997 | 0             | 2,080,744        | 1,121,864     | 3,202,608    | 31.9%          |



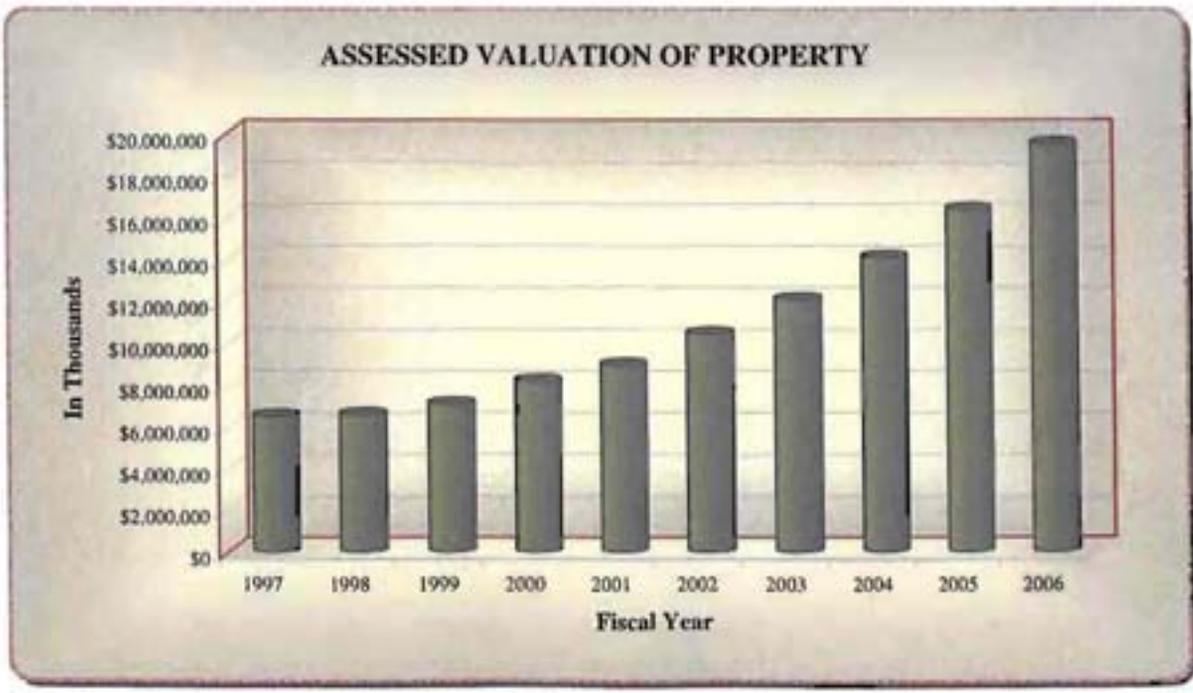
(1) Donations are contributions to the Water Conservation Authority formed in 1999. See Note 9 in the Notes to Financial Statements for more information.

Source: Otay Water District



**OTAY WATER DISTRICT**  
**Assessed Valuation of Taxable Property Within the District**  
**Last Ten Fiscal Years**

| <u>Fiscal Year</u> | <u>Secured</u>    | <u>Unsecured</u> | <u>Total</u>      | <u>Percent Change</u> |
|--------------------|-------------------|------------------|-------------------|-----------------------|
| 2006               | \$ 19,204,029,184 | \$ 361,636,280   | \$ 19,565,665,464 | 19.13%                |
| 2005               | 16,121,465,817    | 301,937,884      | 16,423,403,701    | 16.23%                |
| 2004               | 13,833,852,366    | 296,691,701      | 14,130,544,067    | 16.50%                |
| 2003               | 11,786,410,218    | 343,253,933      | 12,129,664,151    | 15.63%                |
| 2002               | 10,239,985,732    | 249,933,698      | 10,489,919,430    | 16.67%                |
| 2001               | 8,767,643,482     | 223,676,433      | 8,991,319,915     | 9.33%                 |
| 2000               | 7,809,527,552     | 414,404,800      | 8,223,932,352     | 15.61%                |
| 1999               | 6,953,623,384     | 159,752,464      | 7,113,375,848     | 7.51%                 |
| 1998               | 6,480,364,157     | 136,236,552      | 6,616,600,709     | 1.19%                 |
| 1997               | 6,408,701,949     | 129,954,347      | 6,538,656,296     | 1.09%                 |

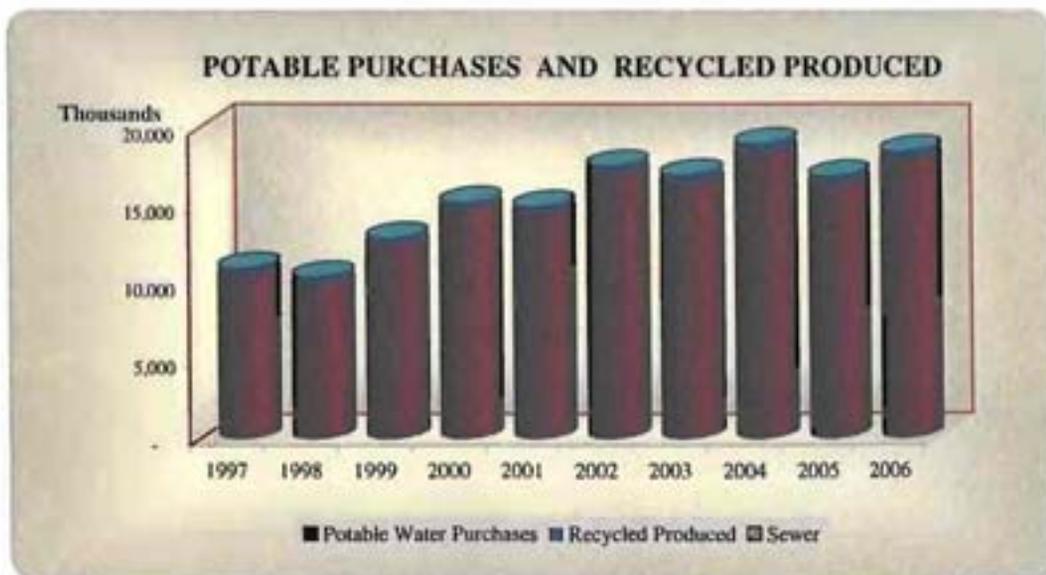


Source: County of San Diego Auditor and Controller

## OTAY WATER DISTRICT

### Potable and Treated Water Produced and Sold Last Ten Fiscal Years

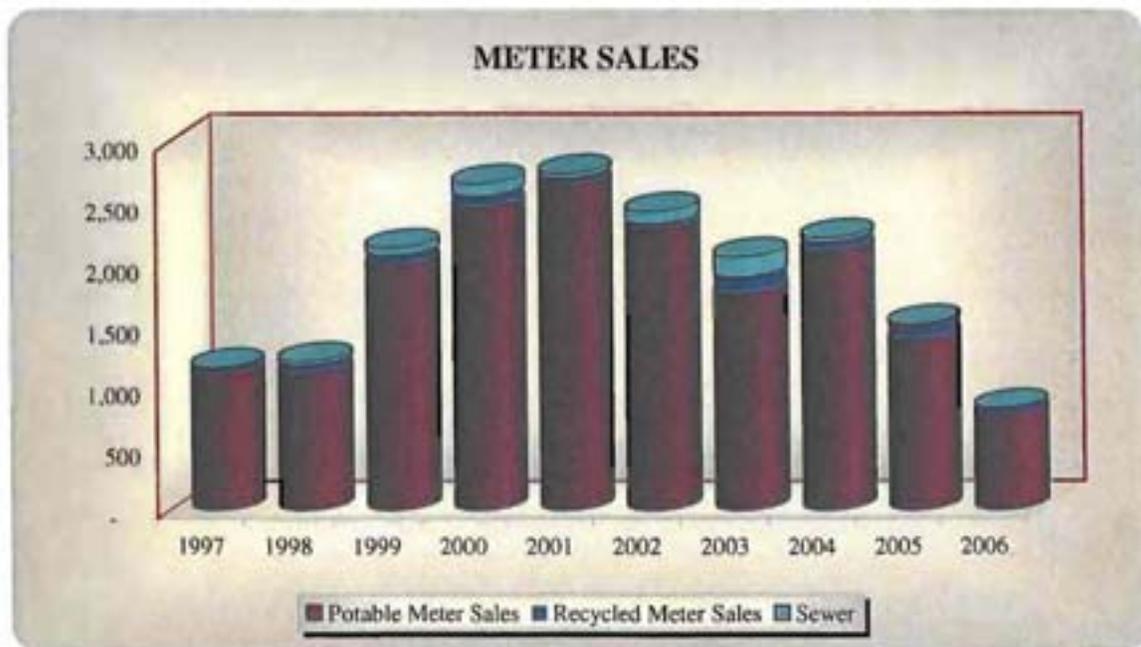
| Fiscal Year | Potable Water Purchases | Billed Water Sold | Recycled Water Produced | Direct Rate Base | Usage    | Sewer    |
|-------------|-------------------------|-------------------|-------------------------|------------------|----------|----------|
| 2006        | 17,972,146              | 14,723,988        | 537,399.7               | \$ 10.25         | \$ 13.90 | \$ 30.90 |
| 2005        | 16,412,711              | 13,708,001        | 501,114.2               | 10.25            | 13.40    | 26.90    |
| 2004        | 18,424,007              | 14,711,176        | 568,588.7               | 10.25            | 13.30    | 23.35    |
| 2003        | 16,486,502              | 13,613,885        | 486,739.4               | 10.25            | 13.30    | 20.95    |
| 2002        | 17,084,537              | 13,723,241        | 471,580.6               | 10.25            | 13.30    | 20.95    |
| 2001        | 14,521,902              | 12,057,399        | 418,873.0               | 10.25            | 13.30    | 20.95    |
| 2000        | 14,801,644              | 12,023,682        | 408,636.4               | 10.25            | 13.30    | 20.95    |
| 1999        | 12,537,309              | 10,335,051        | 363,029.0               | 10.25            | 13.30    | 20.95    |
| 1998        | 9,963,479               | 9,164,466         | 425,407.0               | 10.25            | 13.30    | 20.95    |
| 1997        | 10,521,918              | 9,791,072         | 451,669.3               | 10.25            | 13.30    | 20.95    |



(1) Based on Residential customer who use 10 units per month. Unit shall mean 100 cubic feet or 748 gallons of water.

## OTAY WATER DISTRICT Meter Sales by Type Last Ten Fiscal Years

| Fiscal Year | Potable | Recycled | Sewer | Total |
|-------------|---------|----------|-------|-------|
| 2006        | 788     | 47       | 1     | 836   |
| 2005        | 1,406   | 95       | 22    | 1,523 |
| 2004        | 2,125   | 64       | 38    | 2,227 |
| 2003        | 1,782   | 123      | 168   | 2,073 |
| 2002        | 2,308   | 33       | 102   | 2,443 |
| 2001        | 2,667   | 43       | 41    | 2,751 |
| 2000        | 2,485   | 78       | 105   | 2,668 |
| 1999        | 2,010   | 69       | 64    | 2,143 |
| 1998        | 1,126   | 58       | 34    | 1,218 |
| 1997        | 1,115   | 32       | 20    | 1,167 |

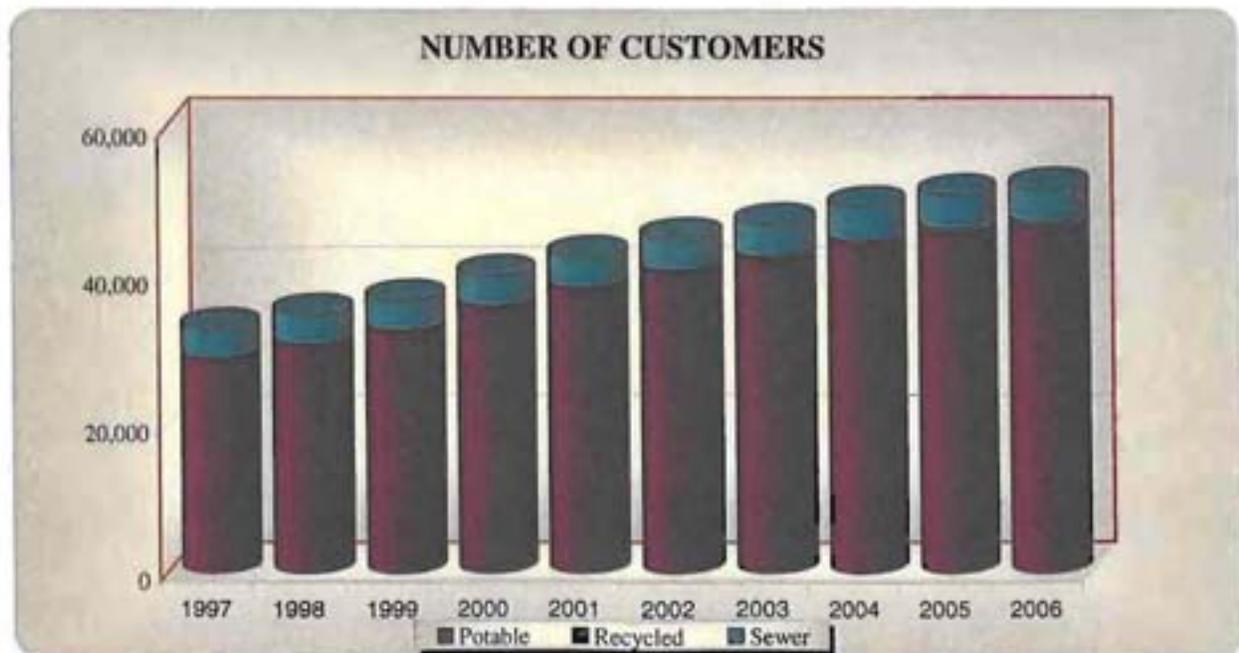


Source: Otay Water District



## OTAY WATER DISTRICT Number of Customers by Service Type Last Ten Fiscal Years

| Fiscal Year | Potable | Recycled | Sewer | Total  |
|-------------|---------|----------|-------|--------|
| 2006        | 46,851  | 558      | 4,571 | 51,980 |
| 2005        | 46,042  | 483      | 4,570 | 51,095 |
| 2004        | 44,583  | 348      | 4,548 | 49,479 |
| 2003        | 42,438  | 312      | 4,510 | 47,260 |
| 2002        | 40,732  | 189      | 4,342 | 45,263 |
| 2001        | 38,502  | 128      | 4,240 | 42,870 |
| 2000        | 36,005  | 106      | 4,199 | 40,310 |
| 1999        | 32,773  | 59       | 4,094 | 36,926 |
| 1998        | 30,943  | 44       | 4,030 | 35,017 |
| 1997        | 29,021  | 20       | 3,996 | 33,037 |

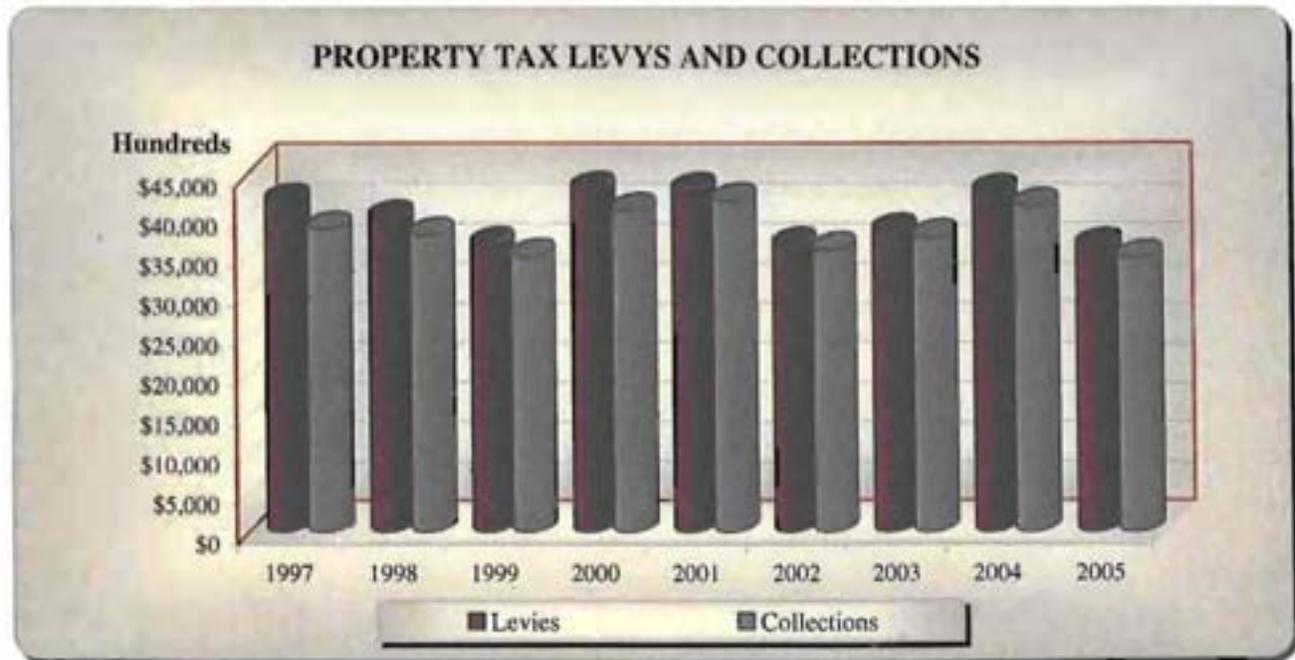


Source: Otay Water District



## OTAY WATER DISTRICT Property Tax Levies and Collections Last Ten Fiscal Years

| Fiscal Year | LEVY (1)        |                     |            | Total Collections (1) | Net Receivable (2) | Percent Collected |
|-------------|-----------------|---------------------|------------|-----------------------|--------------------|-------------------|
|             | 1% Property Tax | Special Assessments | Total Levy |                       |                    |                   |
| 2006        | 1,420,049       | 2,519,927           | 3,939,976  | 3,935,983             | 3,993              | 100%              |
| 2005        | 1,173,319       | 2,430,267           | 3,603,586  | 3,455,852             | 147,734            | 96%               |
| 2004        | 1,844,604       | 2,442,356           | 4,286,961  | 4,108,581             | 178,379            | 96%               |
| 2003        | 1,541,362       | 2,246,865           | 3,788,227  | 3,721,776             | 66,452             | 98%               |
| 2002        | 1,314,354       | 2,305,191           | 3,619,545  | 3,558,105             | 61,440             | 98%               |
| 2001        | 1,134,675       | 3,171,206           | 4,305,882  | 4,176,331             | 129,550            | 97%               |
| 2000        | 997,055         | 3,321,696           | 4,318,751  | 4,053,482             | 265,269            | 94%               |
| 1999        | 870,451         | 2,753,571           | 3,624,023  | 3,475,903             | 148,120            | 96%               |
| 1998        | 801,536         | 3,158,394           | 3,959,929  | 3,740,021             | 219,909            | 94%               |
| 1997        | 769,016         | 3,401,857           | 4,170,874  | 3,818,801             | 352,073            | 92%               |



(1) Levy and collections includes Current Secured, Current Unsecured and Supplemental HOE.

(2) Net Receivable becomes a prior period balance in the next fiscal year.

Source: Otay Water District



## OTAY WATER DISTRICT Water and Sewer Rates Last Ten Fiscal Years

| Base Rate (Meter Size)                         | 1997     | 1998     | 1999     | 2000     | 2001     | 2002     | 2003     | 2004     | 2005     | 2006     |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| <b><u>Residential</u></b>                      |          |          |          |          |          |          |          |          |          |          |
| 3/4"   | \$ 10.25 | \$ 10.25 | \$ 10.25 | \$ 10.25 | \$ 10.25 | \$ 10.25 | \$ 10.25 | \$ 10.25 | \$ 10.25 | \$ 10.25 |
| 1"   | 16.50    | 16.50    | 16.50    | 16.50    | 16.50    | 16.50    | 16.50    | 16.50    | 16.50    | 16.50    |
| 1.5"   | 32.50    | 32.50    | 32.50    | 32.50    | 32.50    | 32.50    | 32.50    | 32.50    | 32.50    | 32.50    |
| <b><u>Non-Residential &amp; Others (3)</u></b> |          |          |          |          |          |          |          |          |          |          |
| 3/4"   | 20.00    | 20.00    | 20.00    | 20.00    | 20.00    | 20.00    | 20.00    | 20.00    | 20.00    | 20.00    |
| 1"   | 30.80    | 30.80    | 30.80    | 30.80    | 30.80    | 30.80    | 30.80    | 30.80    | 30.80    | 30.80    |
| 1.5"   | 43.30    | 43.30    | 43.30    | 43.30    | 43.30    | 43.30    | 43.30    | 43.30    | 43.30    | 43.30    |
| 2"   | 54.20    | 54.20    | 54.20    | 54.20    | 54.20    | 54.20    | 54.20    | 54.20    | 54.20    | 54.20    |
| 3"   | 87.20    | 87.20    | 87.20    | 87.20    | 87.20    | 87.20    | 87.20    | 87.20    | 87.20    | 87.20    |
| 4"   | 99.80    | 99.80    | 99.80    | 99.80    | 99.80    | 99.80    | 99.80    | 99.80    | 99.80    | 99.80    |
| 6"   | 199.50   | 199.50   | 199.50   | 199.50   | 199.50   | 199.50   | 199.50   | 199.50   | 199.50   | 199.50   |
| 10"  | 380.50   | 380.50   | 380.50   | 380.50   | 380.50   | 380.50   | 380.50   | 380.50   | 380.50   | 380.50   |
| <b><u>Fire Services</u></b>                    |          |          |          |          |          |          |          |          |          |          |
| All Types                                      | 21.20    | 21.20    | 21.20    | 21.20    | 21.20    | 21.20    | 21.20    | 21.20    | 21.20    | 21.20    |
| <b>Usage Rate</b>                              |          |          |          |          |          |          |          |          |          |          |
| <i>Residential:</i>                            |          |          |          |          |          |          |          |          |          |          |
| Tier 1 (1-5)                                   | 1.01     | 1.01     | 1.01     | 1.01     | 1.01     | 1.01     | 1.01     | 1.01     | 1.01     | 1.05     |
| Tier 2 (6-25)                                  | 1.65     | 1.65     | 1.67     | 1.67     | 1.67     | 1.67     | 1.67     | 1.67     | 1.67     | 1.73     |
| Tier 3 (26-35)                                 | 1.79     | 1.79     | 1.81     | 1.81     | 1.81     | 1.81     | 1.81     | 1.81     | 1.81     | 1.88     |
| Tier 4 (36-50) (1)                             | 2.11     | 2.11     | 2.13     | 2.13     | 2.13     | 2.13     | 2.13     | 2.13     | 2.65     | 2.75     |
| Tier 5 (51+)                                   | 2.62     | 2.62     | 2.65     | 2.65     | 2.65     | 2.65     | 2.65     | 2.65     | -        | -        |
| <i>Master Meter:</i>                           |          |          |          |          |          |          |          |          |          |          |
| Tier 1 (1-5)                                   | 1.76     | 1.76     | 1.78     | 1.78     | 1.78     | 1.78     | 1.78     | 1.78     | 1.67     | 1.73     |
| Tier 2 (6-25)                                  |          |          |          |          |          |          |          |          | 1.81     | 1.88     |
| Tier 3 (16+)                                   |          |          |          |          |          |          |          |          | 2.65     | 2.75     |
| <i>Publicly-Owned</i>                          | 1.84     | 1.84     | 1.86     | 1.86     | 1.86     | 1.86     | 1.86     | 1.86     | 1.86     | 1.93     |
| <i>Commercial &amp; Others (2)</i>             | 1.76     | 1.76     | 1.78     | 1.78     | 1.78     | 1.78     | 1.78     | 1.78     | 1.78     | 1.85     |
| <i>Recycled (Commercial)</i>                   | 1.50     | 1.50     | 1.51     | 1.51     | 1.51     | 1.51     | 1.51     | 1.51     | 1.51     | 1.57     |
| <i>Recycled (Publicly-Owned)</i>               | 1.58     | 1.58     | 1.59     | 1.59     | 1.59     | 1.59     | 1.59     | 1.59     | 1.59     | 1.65     |
| <b>Sewer Rates</b>                             | 20.95    | 20.95    | 20.95    | 20.95    | 20.95    | 20.95    | 20.95    | 20.95    | 23.35    | 30.90    |

(1) Effective January 2005 the tier 5 has been eliminated and replaced by tier 4 (36+).

(2) Others include Landscaping, Agricultural and Temporary Meters.

Agricultural customers under Interim Agricultural Water Program (IAWP) shall receive a \$0.33 discount per H.C.F.

(3) In addition, for service provided through one meter to more than one occupancy a fee of \$3.21 will be charged for each unit in a multiple unit residential, commercial or industrial building.

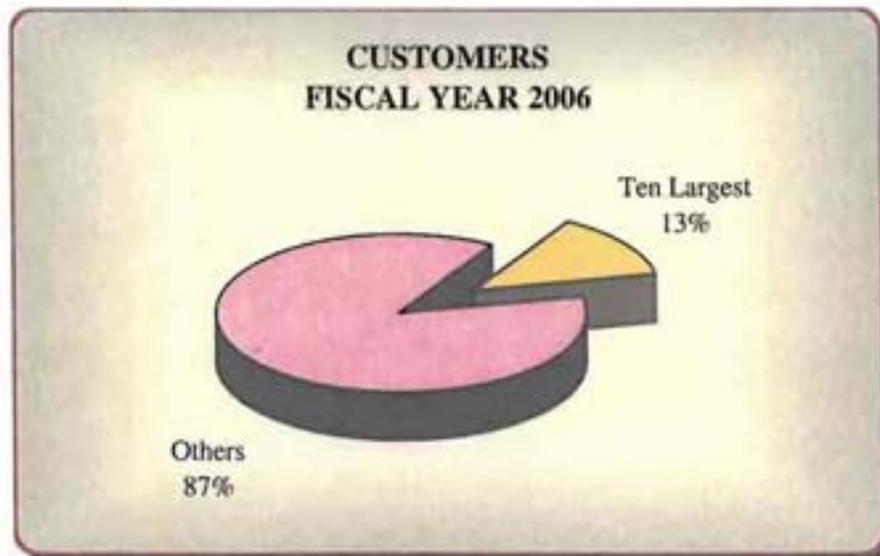
(4) Rates above not including Infrastructure Access Charge a pass through charged from CWA and MWD.

Source: Otay Water District



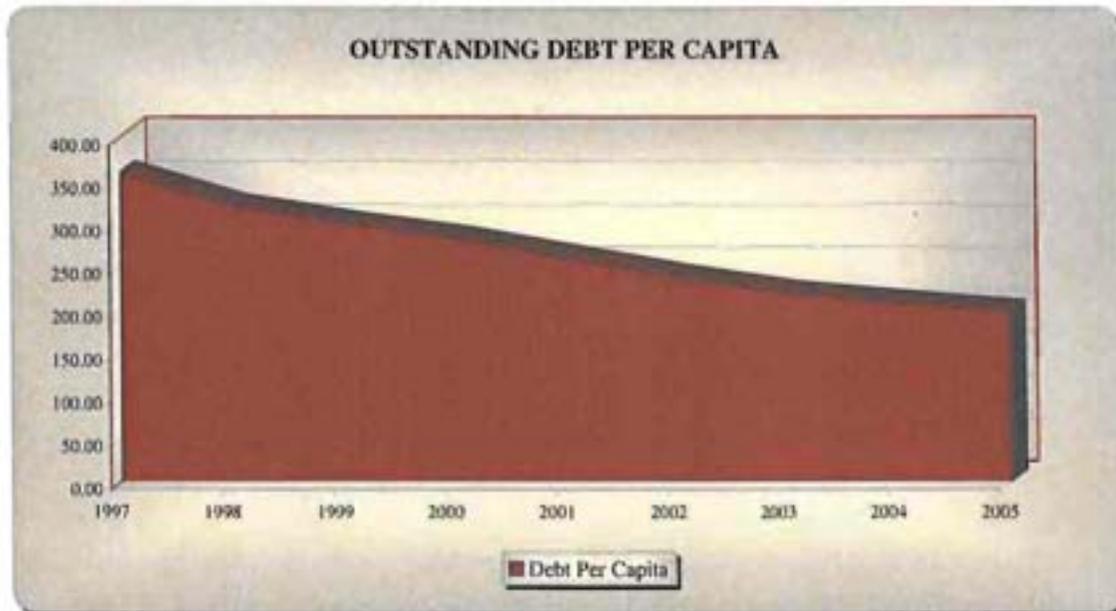
## TEN LARGEST CUSTOMERS - FISCAL YEAR 2006

| Customer Name               | Business Type                   | Annual Revenues      | % of Water Sales |
|-----------------------------|---------------------------------|----------------------|------------------|
| 1. City of Chula Vista      | Publicly Owned                  | \$ 1,320,142         | 3.0%             |
| 2. State of California      | Publicly Owned                  | 948,696              | 2.2%             |
| 3. McMillin                 | Construction (Potable)          | 666,771              | 1.5%             |
| 4. County of San Diego      | Publicly Owned                  | 665,694              | 1.5%             |
| 5. Eastlake III             | Business/Irrigation (Reclaimed) | 502,189              | 1.1%             |
| 6. Country Hills Apartments | Residential (Master Meter)      | 461,985              | 1.1%             |
| 7. Country Club Eastlake    | Irrigation (Reclaimed)          | 417,029              | 1.0%             |
| 8. Steele Canyon            | Irrigation (Potable Permanent)  | 319,216              | 0.7%             |
| 9. California Bank & Trust  | Irrigation (Reclaimed)          | 284,783              | 0.7%             |
| 10. The EastLake Company    | Construction (Potable)          | 214,593              | 0.5%             |
| Total                       |                                 | <u>\$ 5,801,098</u>  | <u>13.3%</u>     |
| Estimated FY06 Water Sales  |                                 | <u>\$ 43,755,610</u> |                  |



## OTAY WATER DISTRICT Ratios of Outstanding Debt by Type Last Ten Fiscal Years

| Fiscal Year | Population Estimate | GO Bond      | COPS         | Notes     | Capital Leases | Total         | Per Capita | As a Share of Personal Income (1) |
|-------------|---------------------|--------------|--------------|-----------|----------------|---------------|------------|-----------------------------------|
| 2006        | 190,000             | \$ 8,776,755 | \$24,909,352 | 1,659,037 | 51,595         | \$ 35,396,739 | 186.30     | 0.48%                             |
| 2005        | 186,000             | \$ 9,093,482 | \$25,653,607 | 1,956,871 | 100,666        | \$ 36,804,626 | 197.87     | 0.51%                             |
| 2004        | 180,000             | 9,395,209    | 25,666,312   | 2,244,633 | 147,343        | \$ 37,453,497 | 208.07     | 0.55%                             |
| 2003        | 176,000             | 9,681,937    | 26,298,239   | 2,522,665 | 191,742        | \$ 38,694,583 | 219.86     | 0.62%                             |
| 2002        | 166,000             | 9,953,664    | 26,915,166   | 2,791,295 | -              | \$ 39,660,125 | 238.92     | 0.69%                             |
| 2001        | 156,000             | 10,210,392   | 27,517,093   | 3,050,841 | -              | \$ 40,778,326 | 261.40     | 0.77%                             |
| 2000        | 147,000             | 10,452,118   | 28,004,021   | 3,301,610 | -              | \$ 41,757,749 | 284.07     | 0.87%                             |
| 1999        | 142,000             | 10,683,845   | 28,480,948   | 3,543,899 | -              | \$ 42,708,692 | 300.77     | 0.99%                             |
| 1998        | 137,000             | 11,300,572   | 28,942,243   | 3,777,994 | -              | \$ 44,020,809 | 321.32     | 1.13%                             |
| 1997        | 130,000             | 13,397,230   | 29,400,717   | 4,004,173 | -              | \$ 46,802,120 | 360.02     | 1.37%                             |

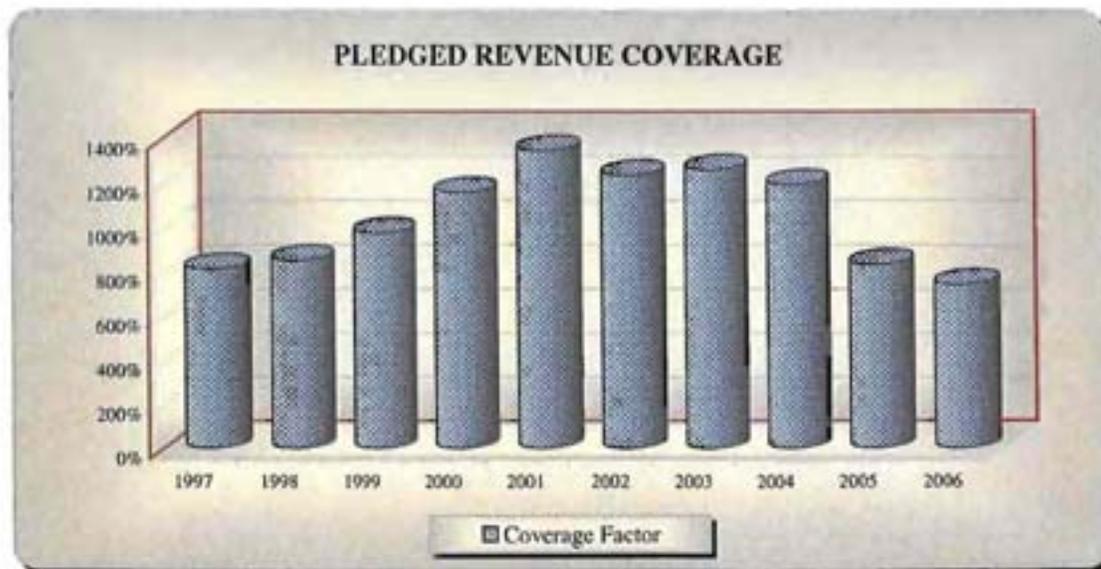


(1) See the Demographics and Economic Statistics schedule for personal income data. Because per capita personal income data were not available for 2006 the percentage for 2006 was calculated using per capita personal income for 2005.

Source: Otay Water District

## OTAY WATER DISTRICT Pledged Revenue Coverage Last Ten Fiscal Years

| Fiscal Year | Adjusted Revenue (1) | Adjusted Operating Expense (2) | Net Revenue Available for Debt Service | Debt Service Requirements |           |             | Coverage Factor |
|-------------|----------------------|--------------------------------|--|---------------------------|-----------|-------------|-----------------|
|             |                      |                                |  | Principal                 | Interest  | Total       |                 |
| 2006        | \$ 59,990,213        | \$ 47,595,682                  | \$ 12,394,531                          | \$745,000                 | \$924,490 | \$1,669,490 | 742%            |
| 2005        | 56,597,040           | 43,936,109                     | 12,660,931                             | 650,000                   | 869,715   | 1,519,715   | 833%            |
| 2004        | 57,195,289           | 38,980,975                     | 18,214,314                             | 635,000                   | 891,796   | 1,526,796   | 1,193%          |
| 2003        | 53,077,164           | 33,787,868                     | 19,289,296                             | 620,000                   | 908,416   | 1,528,416   | 1,262%          |
| 2002        | 51,604,999           | 31,904,402                     | 19,700,597                             | 605,000                   | 987,467   | 1,592,467   | 1,237%          |
| 2001        | 51,547,298           | 29,012,779                     | 22,534,519                             | 490,000                   | 1,181,032 | 1,671,032   | 1,349%          |
| 2000        | 46,922,341           | 26,861,461                     | 20,060,880                             | 480,000                   | 1,252,054 | 1,732,054   | 1,158%          |
| 1999        | 39,509,478           | 23,197,084                     | 16,312,394                             | 470,000                   | 1,202,210 | 1,672,210   | 975%            |
| 1998        | 35,474,313           | 20,395,118                     | 15,079,195                             | 460,000                   | 1,311,930 | 1,771,930   | 851%            |
| 1997        | 34,563,557           | 20,143,559                     | 14,419,998                             | 450,000                   | 1,327,943 | 1,777,943   | 811%            |



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

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

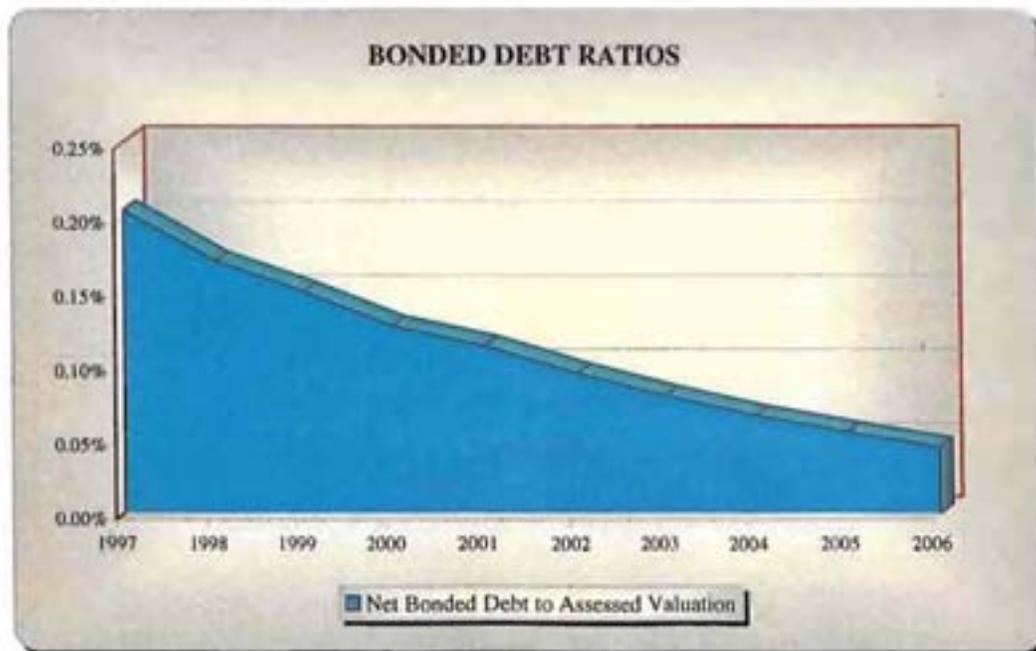
(3) The District's bond covenants require a minimum coverage factor of 120%.

Source: Otay Water District



## OTAY WATER DISTRICT Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years

| Fiscal Year | Population Estimate | Assessed Valuation | Gross Bonded Debt | Debt Service Funds | Net Bonded Debt | Net Bonded Debt to Assessed Valuation | Net Bonded Debt Per Capita |
|-------------|---------------------|--------------------|-------------------|--------------------|-----------------|---------------------------------------|----------------------------|
| 2006        | 190,000             | \$ 19,565,665,464  | \$8,776,755       | -                  | \$8,776,755     | 0.04%                                 | 46.19                      |
| 2005        | 186,000             | 16,423,403,701     | 9,093,482         | -                  | 9,093,482       | 0.06%                                 | 48.89                      |
| 2004        | 180,000             | 14,130,544,067     | 9,395,209         | -                  | 9,395,209       | 0.07%                                 | 52.20                      |
| 2003        | 176,000             | 12,129,664,151     | 9,681,937         | -                  | 9,681,937       | 0.08%                                 | 55.01                      |
| 2002        | 166,000             | 10,489,919,430     | 9,953,664         | -                  | 9,953,664       | 0.09%                                 | 59.96                      |
| 2001        | 156,000             | 8,991,319,915      | 10,210,392        |                    | 10,210,392      | 0.11%                                 | 65.45                      |
| 2000        | 147,000             | 8,223,932,352      | 10,452,118        |                    | 10,452,118      | 0.13%                                 | 71.10                      |
| 1999        | 142,000             | 7,113,375,848      | 10,683,845        |                    | 10,683,845      | 0.15%                                 | 75.24                      |
| 1998        | 137,000             | 6,616,600,709      | 11,300,572        |                    | 11,300,572      | 0.17%                                 | 82.49                      |
| 1997        | 130,000             | 6,538,656,296      | 13,397,230        | -                  | 13,397,230      | 0.20%                                 | 103.06                     |



Source: Otay Water District



**OTAY WATER DISTRICT**  
**Computation of Direct and Overlapping Bonded Debt**  
**June 30, 2006**

|                                      |                    |
|--------------------------------------|--------------------|
| 2005-06 Assessed Valuation:          | \$19,565,665,464   |
| Redevelopment Incremental Valuation: | <u>185,562,728</u> |
| Adjusted Assessed Valuation:         | \$19,380,102,686   |

| <u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>                                 | Total Debt<br>6/30/2006 | % Applicable<br>(1) | District's Share of<br>Debt 6/30/06 |
|---|-------------------------|---------------------|-------------------------------------|
| Metropolitan Water District   | \$389,565,000           | 1.32%               | \$5,153,945                         |
| Otay Municipal Water District Improvement District No. 25                   | 265,000                 | 100                 | 265,000                             |
| Otay Municipal Water District Improvement District No. 27                   | 9,590,000               | 100                 | 9,590,000                           |
| Padre Dam Municipal Water District Improvement District No. CB              | 340,000                 | 0.028               | 95                                  |
| Grossmont-Cuyamaca Community College District                               | 145,599,623             | 17.658              | 25,709,981                          |
| Southwestern Community College District                                     | 90,570,090              | 44.067              | 39,911,522                          |
| Grossmont Union High School District  | 179,890,422             | 18.158              | 32,664,503                          |
| Sweetwater Union High School District                                       | 82,615,000              | 51.699              | 42,711,129                          |
| Chula Vista City School District  | 88,410,000              | 61.723              | 54,569,304                          |
| San Ysidro School District  | 57,784,363              | 46.252              | 26,726,424                          |
| Other School Districts  | 1,624,007,604           | Various             | 28,762,500                          |
| City of San Diego   | 11,520,000              | 0.893               | 102,874                             |
| San Diego Open Space Park Facilities District No. 1                         | 19,930,000              | 0.893               | 177,975                             |
| City of Chula Vista Community Facilities District                           | 274,590,000             | 100                 | 274,590,000                         |
| Chula Vista City School District Community Facilities Districts             | 7,700,000               | 100                 | 7,700,000                           |
| Sweetwater Union High School District Community Facilities Districts        | 198,398,838             | 2.523-100.          | 185,269,055                         |
| City 1915 Act Bonds (Estimate)  | 79,049,263              | Various             | <u>58,787,136</u>                   |
| <b>TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT</b>                      |                         |                     | <b>\$792,691,443</b>                |
| Less: San Diego Open Space Park Facilities District No. 1 (self-supporting) |                         |                     | <u>177,975</u>                      |
| <b>TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT</b>                        |                         |                     | <b>\$792,513,468</b>                |

**DIRECT AND OVERLAPPING GENERAL FUND DEBT:**

|  |                   |            |                      |
|--|-------------------|------------|----------------------|
| San Diego County General Fund Obligations                                      | \$448,037,147     | 6.83%      | \$30,578,535         |
| San Diego County Pension Obligations   | 1,231,282,916     | 6.825      | 84,035,059           |
| San Diego Superintendent of Schools Certificates of Participation              | 12,495,000        | 6.825      | 852,784              |
| <b>Otay Water District Certificates of Participation</b>                       | <b>24,925,000</b> | <b>100</b> | <b>24,925,000</b>    |
| Southwestern Community College District General Fund Obligations               | 2,265,000         | 44.067     | 998,118              |
| Grossmont Union High School District Certificates of Participation             | 1,870,000         | 18.158     | 332,291              |
| Sweetwater Union High School District Certificates of Participation            | 16,040,000        | 51.699     | 8,292,520            |
| Chula Vista City School District Certificates of Participation                 | 135,985,000       | 61.723     | 83,934,022           |
| San Ysidro School District Certificates of Participation                       | 26,185,000        | 46.252     | 12,111,086           |
| Other School District Certificates of Participation                            | 15,500,000        | Various    | 3,798,789            |
| City of Chula Vista Certificates of Participation                              | 123,915,000       | 70.854     | 87,798,734           |
| City of Chula Vista Pension Obligations  | 11,795,000        | 70.854     | 8,357,229            |
| City of San Diego General Fund Obligations                                     | 498,040,000       | 0.893      | 4,447,497            |
| San Miguel Consolidated Fire Protection District Certificates of Participation | 9,120,000         | 56.951     | <u>5,193,031</u>     |
| <b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>                    |                   |            | <b>\$355,655,595</b> |
| Less: Otay Water District Certificates of Participation (self-supporting)      |                   |            | <u>24,925,000</u>    |
| <b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>                      |                   |            | <b>\$330,730,595</b> |

|                                  |     |                        |
|----------------------------------|-----|------------------------|
| <b>GROSS COMBINED TOTAL DEBT</b> | (2) | <b>\$1,148,347,038</b> |
| <b>NET COMBINED TOTAL DEBT</b>   |     | <b>\$1,123,244,063</b> |

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

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

Ratios to 2005-06 Assessed Valuation:

|   |       |
|---|-------|
| Total Gross Overlapping Tax and Assessment Debt | 4.05% |
| Total Net Overlapping Tax and Assessment Debt   | 4.05% |

Ratios to Adjusted Assessed Valuation:

|  |              |
|--|--------------|
| <b>Gross Combined Direct Debt (\$24,925,000)</b> | <b>0.13%</b> |
| <b>Net Combined Direct Debt</b>                  | <b>0.00%</b> |
| Gross Combined Total Debt                        | 5.93%        |
| Net Combined Total Debt                          | 5.80%        |

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: \$10

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

## OTAY WATER DISTRICT

### Principal Employers

#### Current Year and Nine Years Ago

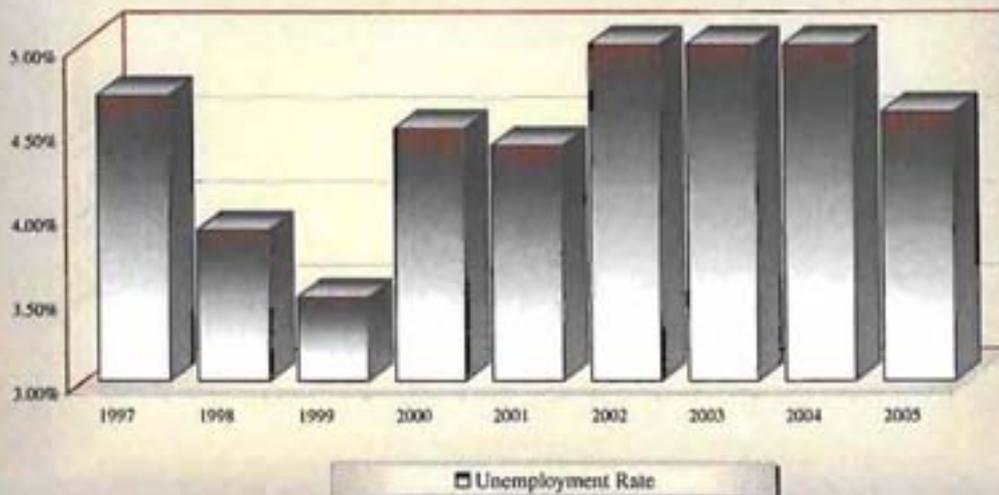
| <u>Employer</u>                           | <u>2006</u>      |             | <u>1997</u>      |             |
|---|------------------|-------------|------------------|-------------|
|   | <u>Employees</u> | <u>Rank</u> | <u>Employees</u> | <u>Rank</u> |
| Federal Government State of California    | 10,000+          | 1           | -                | -           |
| San Diego Unified School District         | 10,000+          | 2           | 10,000+          | 3           |
| University of California San Diego        | 10,000+          | 3           | 10,000+          | 6           |
| County of San Diego                       | 10,000+          | 4           | 10,000+          | 2           |
| Sharp Healthcare                          | 10,000+          | 5           | 10,000+          | 4           |
| San Diego State University                | 5,000-9,999      | 6           | -                | -           |
| Kaiser Permanente Medical Care Program    | 5,000-9,999      | 7           | -                | -           |
| Sempra                                    | 5,000-9,999      | 8           | -                | -           |
| SBC                                       | 5,000-9,999      | 9           | -                | -           |
| Qualcomm                                  | 5,000-9,999      | 10          | -                | -           |
| City of San Diego                         | -                | -           | 10,000+          | 1           |
| United States Government/Civilian         | -                | -           | 10,000+          | 5           |
| San Diego Community College District      | -                | -           | 5,000-9,999      | 7           |
| Scripps Institution of Medicine & Science | -                | -           | 5,000-9,999      | 8           |
| State of California                       | -                | -           | 5,000-9,999      | 9           |
| US Postal Service/San Diego Division      | -                | -           | 5,000-9,999      | 10          |

*Source: County of San Diego*

## OTAY WATER DISTRICT Demographic and Economic Statistics Last Ten Fiscal Years

| Year | Population  | Personal<br>Income | Per Capita<br>Personal<br>Income | Unemployment<br>Rate |
|------|-------------|--------------------|----------------------------------|----------------------|
| 2006 | (1)         |                    |                                  | -                    |
| 2005 | (2)         |                    | 38,614                           | 4.60%                |
| 2004 | 293,656,842 | 111,434,714        | 37,965                           | 5.10%                |
| 2003 | 290,656,005 | 104,050,119        | 35,620                           | 5.60%                |
| 2002 | 287,984,799 | 100,655,726        | 34,719                           | 5.60%                |
| 2001 | 285,107,923 | 97,009,480         | 33,886                           | 4.40%                |
| 2000 | 282,193,477 | 92,654,006         | 32,803                           | 4.50%                |
| 1999 | 275,130,000 | 84,346,910         | 30,236                           | 3.50%                |
| 1998 | 272,690,813 | 77,968,184         | 28,490                           | 3.90%                |
| 1997 | 270,248,003 | 70,535,060         | 26,196                           | 4.70%                |

### UNEMPLOYMENT

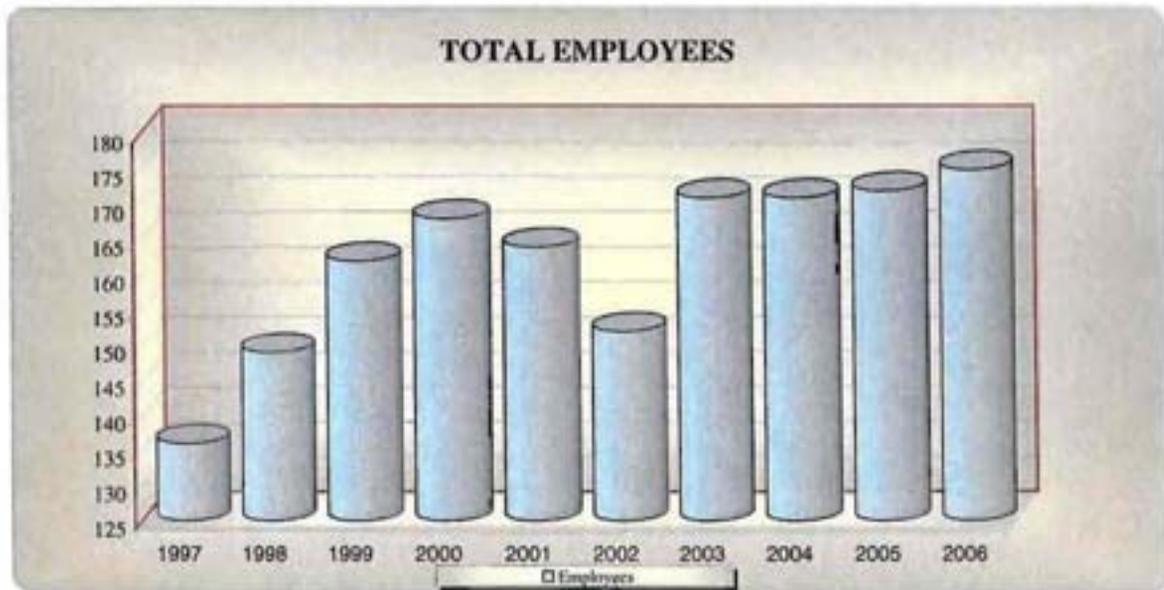


(1) Information for 2006 was not yet available at the time of this report.

(2) Personal income data for 2005 not yet available.

**OTAY WATER DISTRICT**  
**Number of Employees by Function**  
**Last Ten Fiscal Years**

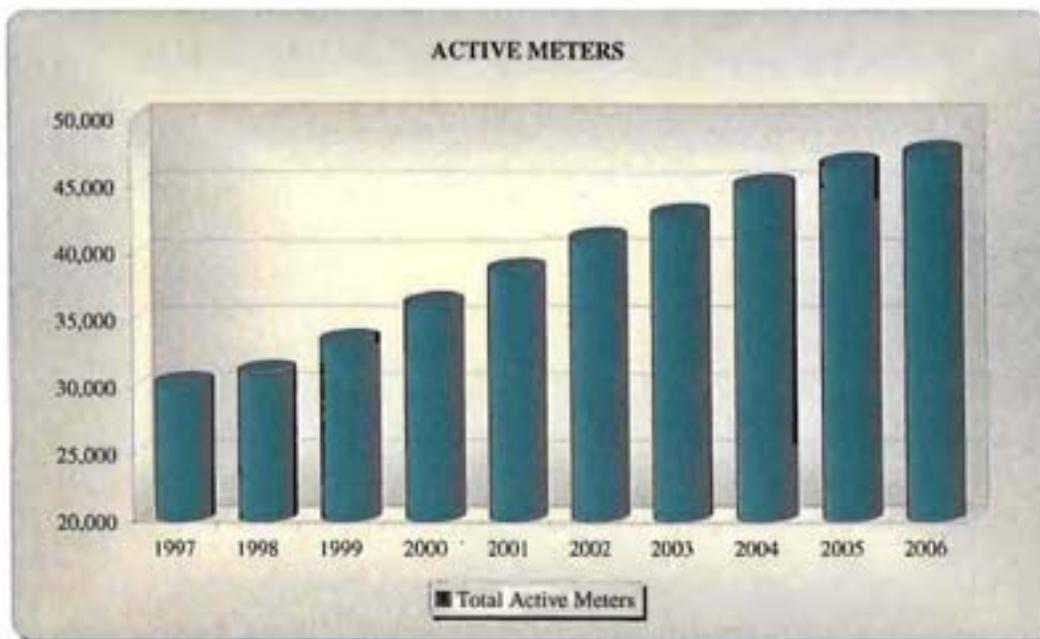
|                           | 2006       | 2005       | 2004       | 2003       | 2002       | 2001       | 2000       | 1999       | 1998       | 1997       |
|---------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| General Manager           | 6          | 6          | 4          | 4          | 3          | 6          | 8          | 8          | 6          | 6          |
| Finance                   | 34         | 34         | 33         | 32         | 32         | 33         | 33         | 32         | 29         | 28         |
| Operations/Maintenance    | 72         | 71         | 70         | 70         | 71         | 73         | 74         | 71         | 68         | 67         |
| Engineering and Planning  | 15         | 13         | 16         | 18         | 24         | 27         | 32         | 31         | 28         | 26         |
| Administrative Services   | 19         | 20         | 21         | 24         | 22         | 25         | 21         | 20         | 18         | 16         |
| IT and Strategic Planning | (1)        | 12         | 11         | 10         | 10         |            |            |            |            |            |
| Development Services      | (2)        | 17         | 17         | 17         | 13         |            |            |            |            |            |
| <b>Total</b>              | <b>175</b> | <b>172</b> | <b>171</b> | <b>171</b> | <b>152</b> | <b>164</b> | <b>168</b> | <b>162</b> | <b>149</b> | <b>136</b> |



Source: Otay Water District

## OTAY WATER DISTRICT Active Meters by Size Last Ten Fiscal Years

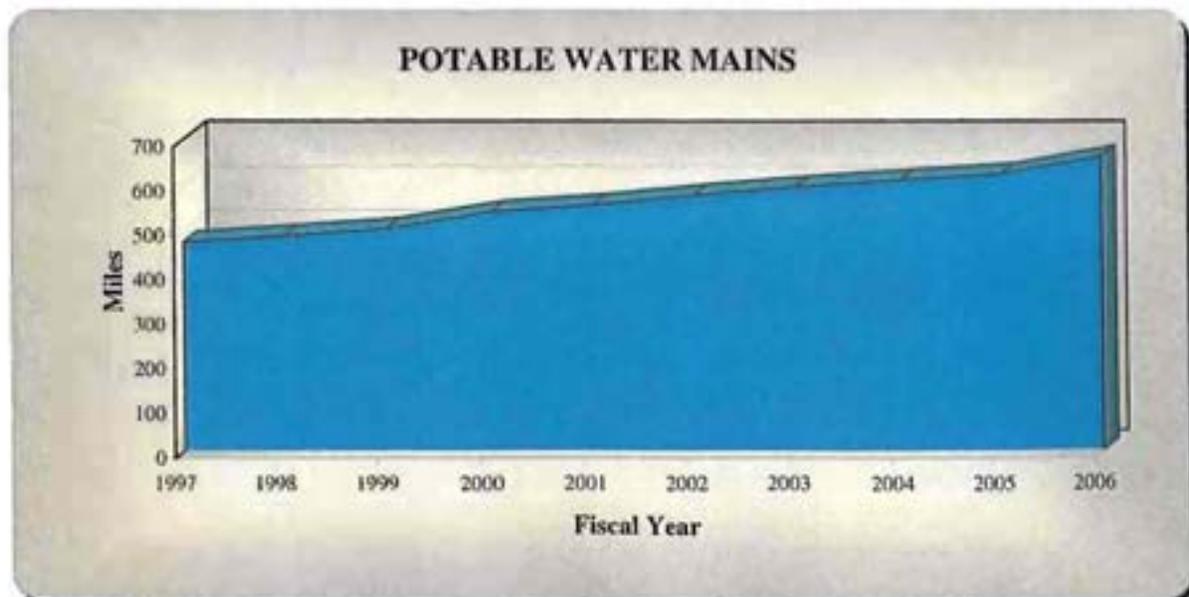
| Meter Size   | 2006          | 2005          | 2004          | 2003          | 2002          | 2001          | 2000          | 1999          | 1998          | 1997          |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 3/4"         | 43,070        | 42,420        | 41,069        | 39,138        | 37,178        | 35,014        | 32,672        | 30,456        | 28,515        | 27,685        |
| 1"           | 1,514         | 1,364         | 1,220         | 1,132         | 1,110         | 1,079         | 1,041         | 1,010         | 881           | 880           |
| 1-1/2"       | 1,199         | 1,147         | 1,037         | 918           | 889           | 837           | 806           | 766           | 660           | 655           |
| 2"           | 1,242         | 1,199         | 1,168         | 1,140         | 1,124         | 1,084         | 1,059         | 992           | 858           | 848           |
| 3"           | 69            | 67            | 66            | 61            | 57            | 50            | 43            | 40            | 35            | 34            |
| 4"           | 277           | 289           | 329           | 308           | 526           | 496           | 431           | 55            | 48            | 44            |
| 6"           | 27            | 27            | 27            | 27            | 40            | 35            | 34            | 14            | 12            | 12            |
| Others       | 11            | 12            | 15            | 26            | 35            | 35            | 25            | 12            | 11            | 9             |
| <b>Total</b> | <b>47,409</b> | <b>46,525</b> | <b>44,931</b> | <b>42,750</b> | <b>40,959</b> | <b>38,630</b> | <b>36,111</b> | <b>33,345</b> | <b>31,020</b> | <b>30,167</b> |
| % Change     | 1.9%          | 3.5%          | 5.1%          | 4.4%          | 6.0%          | 7.0%          | 8.3%          | 7.5%          | 2.8%          | 3.4%          |
| Increase     | 884           | 1,594         | 2,181         | 1,791         | 2,329         | 2,519         | 2,766         | 2,325         | 853           | 980           |



Source: Otay Water District

## OTAY WATER DISTRICT Demographics Statistics Last Ten Fiscal Years

|   | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b><u>Water System</u></b>                            |             |             |             |             |             |             |             |             |             |             |
| Service Area (Square Miles)                           | 125.5       | 125.5       | 125.5       | 125.5       | 125.5       | 125.5       | 125.5       | 125.5       | 125.5       | 125.5       |
| Miles of Potable Water Main                           | 470         | 484         | 501         | 539         | 554         | 576         | 594         | 609         | 623         | 663         |
| Number of Operational Storage Reservoirs in Service   | 38          | 38          | 37          | 37          | 37          | 38          | 37          | 37          | 36          | 37          |
| Water Storage Capacity (in Acre Feet)                 | 541.4       | 541.4       | 538.4       | 538.4       | 538.4       | 587.5       | 582.3       | 585.4       | 582.4       | 601.7       |
| Total Water Connections (No. of Meters in Service)    | 30,167      | 31,020      | 34,612      | 36,986      | 39,624      | 41,500      | 43,915      | 46,028      | 47,127      | 47,409      |
| Number of Pump Stations                               | 20          | 20          | 20          | 20          | 20          | 21          | 21          | 21          | 21          | 22          |
| Number of Potable Water Valves                        | 11,279      | 11,846      | 12,340      | 13,519      | 14,296      | 15,073      | 15,830      | 16,204      | 17,696      | 18,042      |
| <b><u>Sewer System</u></b>                            |             |             |             |             |             |             |             |             |             |             |
| Miles of Sewer Lines                                  | 80.0        | 80.9        | 81.3        | 82.1        | 82.9        | 83.5        | 84.8        | 85.4        | 85.9        | 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 2006 (in Million Gallons) | 445         | 456         | 413         | 442         | 452         | 455         | 463         | 479         | 506         | 483         |
| <b><u>Recycled System</u></b>                         |             |             |             |             |             |             |             |             |             |             |
| Miles of Recycled Water Mains                         | 20.0        | 20.8        | 29.3        | 37.7        | 40.3        | 49.2        | 60.6        | 70.7        | 76.4        | 77.6        |
| Number of Pumping Facilities                          | 1           | 1           | 1           | 1           | 1           | 1           | 2           | 2           | 2           | 2           |
| Number of Acre Feet Storage                           | 36.8        | 86.9        | 86.9        | 86.9        | 86.9        | 86.9        | 97.3        | 97.3        | 97.3        | 97.3        |
| Number of Recycled Water Valves                       | 256         | 282         | 437         | 542         | 588         | 730         | 948         | 1,097       | 1,155       | 1,189       |





# AGENDA ITEM 4

## STAFF REPORT

|                             |  |               |                  |
|-----------------------------|--|---------------|------------------|
| TYPE MEETING:               | Regular Board  | MEETING DATE: | November 1, 2006 |
| SUBMITTED BY:               | Joseph R. Beachem,<br>Chief Financial Officer                | W.O./G.F. NO: | DIV. NO. All     |
| APPROVED BY:<br>(Chief)     |  |               |                  |
| APPROVED BY:<br>(Asst. GM): | German Alvarez,<br>Assistant General Manager                 |               |                  |
| SUBJECT:                    | Informational Item on a Public Hearing Under Proposition 218 |               |                  |

**GENERAL MANAGER'S RECOMMENDATION:**

This is an informational item only, to inform the Board of the need to hold a public hearing to receive public comment on the pending rate increases. The hearing is planned for the January board meeting, after which the Board may affirm the rate changes.

**COMMITTEE ACTION:** \_\_\_\_\_

See Attachment A.

**PURPOSE:**

This is an informational item only, to inform the Board of the need to hold a public hearing to receive public comment on the pending rate increases. The hearing is planned for the January board meeting, after which the Board may affirm the rate changes.

**ANALYSIS:**

District Counsel and the Financial Advisor both recommend that in light of the District's desire to issue debt, that the District hold a Prop 218 hearing covering the pending rate changes. Subsequent to the "Bighorn - Desert View Water Agency v. Virtil (Kelley)" case the bond market's view of what constitutes compliance with Prop 218 has changed. By holding a properly noticed Prop 218 hearing, Counsel and the Financial Advisor believe that the District will avoid any question of compliance and thereby protect the District's ability to issue the planned debt.

In order to more clearly comply with the intent of Prop 218, staff will not implement the rate changes until after the hearing date and reaffirmation of the rates by the Board. This is a three day delay from the originally approved implementation date. Due to the time of year and the low water use, this rescheduling of the rate changes is expected to reduce this year's annual revenue by approximately \$4,000.

The new rates, approved by the Board in the May Budget Workshop, represent an overall increase of 5.4% in water rates and 5.8% in sewer rates. The individual changes for each of the various rates were identified in the Board Budget Workshop and are now being listed, in detail, on the public hearing notice (see Attachment B).

Staff will send the notice to customers in their October or November bills. In addition, owners that are not occupants will be sent the same notice separately, to notify them as required by Prop 218. The minimum time for the notice is 45 days prior to the hearing date. Holding the hearing at the January Board meeting fulfills that requirement.

**FISCAL IMPACT:**



Meeting the bond markets expectation for this hearing will have a positive impact on the District's ability to obtain low cost financing. The cost of the notice is approximately \$7,000. The three day delay in the rate implementation will cost the District approximately \$4,000.

**STRATEGIC OUTLOOK:**

Through well-established financial policies and wise management of funds, the District will continue to guarantee fiscal responsibility to its ratepayers and the community at large.

**LEGAL IMPACT:**

\_\_\_\_\_

None.

  
\_\_\_\_\_  
General Manager

Attachments:

- A) Committee Action Form
- B) Public Hearing Notice



## ATTACHMENT A

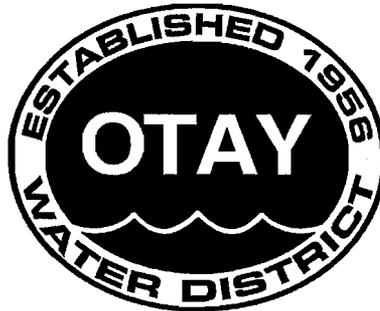
|                         |   |
|-------------------------|---|
| <b>SUBJECT/PROJECT:</b> | Informational Item on a Public Hearing Under Propostion 218 |
|-------------------------|---|

### COMMITTEE ACTION:

The Finance and Administration Committee reviewed this informational item at their meeting held on October 20, 2006.

### NOTE:

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.



**Please be advised there will be a Public Hearing regarding  
proposed water and sewer rates:**

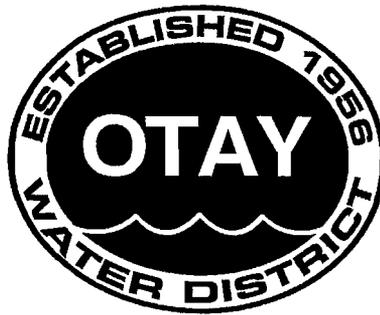
**Wednesday, January 3, 2007  
3:30 p.m. in the Board Meeting Room  
2554 Sweetwater Springs Blvd.  
Spring Valley, CA 91978**

**Purpose and Summary of Rates:** The purpose of the new rate structure is to make it possible for the Otay Water District to maintain the level of service to its customers and a balanced budget. The new rates were determined after performing a detailed six-year analysis of all costs and revenues. This analysis shows a significant portion of the required rate increases are directly related to higher costs for energy and water supply. The proposed rate increases are set forth in the enclosed tables.

Pursuant to currently applicable law, owners of record may respond to proposed rate increases. If you desire to object to the proposed rate increases, you may file a written protest with the Secretary of the Otay Water District at or prior to the time and date set for the public hearing. Under applicable law, protests must be received in writing prior to the close of the public hearing to be considered. A valid protest must contain a description of the real property sufficient to identify the parcel you own within the boundaries of the District (address and or assessor parcel number), the owner(s) name(s), and signature of the owner(s). If the current owner is not shown on the last equalized assessment roll of the County of San Diego, written evidence must be submitted that the person signing the protest is the owner(s). Protests can be mailed or physically delivered to: **Board Secretary, Otay Water District, at the address above. DO NOT SEND PROTESTS VIA EMAIL.**

If a majority of the affected property owners file written protests, the proposed water or sewer rate charges will not be implemented. If you have questions regarding this notice, please visit our Web site at [www.otaywater.gov](http://www.otaywater.gov) or speak with a Customer Representative at (619) 670-2227 between 8:00 a.m. and 5:00 p.m. Monday through Friday.

*Este informe contiene información muy importante sobre su tarifa de agua. Por favor llame servicio al cliente (619-670-2227) se tiene preguntas.*



| Monthly Charges                  |                                  |                                 |   |  |
|----------------------------------|----------------------------------|---------------------------------|---|--|
| Customer Class: Domestic Service |                                  |                                 |   |  |
| Meter Size                       | System Charge (Through 12-31-06) | System Charge (Proposed 1-1-07) | MWD & CWA Fixed Charge (Through 12-31-06) | MWD & CWA Fixed Charge (Proposed 1-1-07) |
| 3/4"                             | 10.25                            | 11.30                           | 2.85                                      | 3.55                                     |
| 1"                               | 16.50                            | 18.15                           | 4.55                                      | 5.65                                     |
| 1-1/2"                           | 32.50                            | 35.75                           | 8.55                                      | 10.65                                    |
| 2"                               | 54.20                            | 58.60                           | 14.80                                     | 18.45                                    |

| Customer Classes: Multi Residential, Business, Combined Domestic/Agriculture, Publicly-owned, Commercial Agricultural, Non Agricultural Irrigation, Reclaimed, Irrigation using Non-potable and Reclaimed |                                  |                                 |  |   |
|---|----------------------------------|---------------------------------|--|---|
| Meter Size  | System Charge (Through 12-31-06) | System Charge (Proposed 1-1-07) | MWD & CWA Fixed Charge* (Through 12-31-06) | MWD & CWA Fixed Charge* (Proposed 1-1-07) |
| 3/4"  | 20.00                            | 22.00                           | 2.85                                       | 3.55                                      |
| 1"  | 30.80                            | 33.90                           | 4.55                                       | 5.65                                      |
| 1-1/2"  | 43.30                            | 47.65                           | 8.55                                       | 10.65                                     |
| 2"  | 54.20                            | 59.60                           | 14.80                                      | 18.45                                     |
| 3"  | 87.20                            | 95.90                           | 27.35                                      | 34.05                                     |
| 4"  | 99.80                            | 109.80                          | 46.75                                      | 58.20                                     |
| 6"  | 199.50                           | 219.45                          | 85.50                                      | 106.45                                    |
| 10"   | 380.80                           | 418.90                          | 222.30                                     | 276.75                                    |

\* Not charged to Non Agricultural Irrigation and Reclaimed

|  |
|--|
| Fire Service System Charges - From \$21.20 to \$23.30                                  |
| Customer Class: Multi Residential Multiple Unit Charge per meter from \$3.21 to \$3.53 |

Customers paying two times the water rate (Tank Trucks, Temporary Construction Meters and service outside the Otay Water District or an Improvement District) are impacted by the changes in their base rates.

|  |
|--|
| Sewer Charge per ASU - From \$30.90 to \$32.70 |
| ASU - Assigned Service Unit                    |

| Water Unit Charges                            |                                    |                                   |
|---|------------------------------------|-----------------------------------|
| Improvement District Additional Water Charges |                                    |                                   |
| Service Area                                  | Rate per H.C.F. (Through 12-31-06) | Rate per H.C.F. (Proposed 1-1-07) |
| ID 3  | 0.14                               | 0.15                              |
| ID 10   | 0.22                               | 0.23                              |

| Customer Class: Domestic Service |                                    |                                   |
|----------------------------------|------------------------------------|-----------------------------------|
| Number of H.C.F. Furnished       | Rate per H.C.F. (Through 12-31-06) | Rate per H.C.F. (Proposed 1-1-07) |
| *1-5                             | 1.05                               | 1.08                              |
| 6-10                             | 1.73                               | 1.78                              |
| 11-35                            | 1.88                               | 1.94                              |
| Over 36                          | 2.75                               | 2.83                              |

\* Applies if 10 units or less used

| Customer Class: Multi Residential and Residential Attached |                                    |                                   |
|--|------------------------------------|-----------------------------------|
| Number of H.C.F. Furnished                                 | Rate per H.C.F. (Through 12-31-06) | Rate per H.C.F. (Proposed 1-1-07) |
| 0-4  | 1.73                               | 1.78                              |
| Over 4-15  | 1.88                               | 1.94                              |
| Over 15  | 2.75                               | 2.83                              |

| Customer Classes: Business, Combined Domestic/Agriculture, Publicly Owned, Commercial, Agricultural, Non Agricultural Irrigation, Special Agreement |                                   |
|---|-----------------------------------|
| Rate per H.C.F. (Through 12-31-06)  | Rate per H.C.F. (Proposed 1-1-07) |
| 1.85  | 1.91                              |

| Customer Class: Reclaimed, Irrigation using Non potable and Reclaimed |                                   |
|---|-----------------------------------|
| Rate per H.C.F. (Through 12-31-06)                                    | Rate per H.C.F. (Proposed 1-1-07) |
| 1.57  | 1.65                              |