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

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA
BOARDROOM

TUESDAY
October 22, 2013
11:30 A.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. APPROVE THE DISTRICT'S AUDITED FINANCIAL STATEMENTS, INCLUDING THE INDEPENDENT AUDITORS' UNQUALIFIED OPINION, FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (KOEPPEN) [5 minutes]

4. ADOPT RESOLUTION NOs. 4219 AND 4220, TO INITIATE THE PROCESS FOR THE EXCLUSION OF PARCELS WITHIN IMPROVEMENT DISTRICTS (IDs) 19 AND 25; AND ADOPT RESOLUTION NOs. 4221 and 4222 TO INITIATE THE PROCESS FOR THE ANNEXATION OF THE EXCLUDED PARCELS IN IDs 19 AND 25 INTO IDs 22 AND 20 RESPECTIVELY (BELL) [5 minutes]

5. APPROVE THE ISSUANCE OF A PURCHASE ORDER TO INLAND KENWORTH IN THE AMOUNT OF $175,876.30 FOR THE PURCHASE OF ONE (1) NEW KENWORTH UTILITY CREW TRUCK AND DECLARE UNIT NO. 111 UTILITY CREW TRUCK SURPLUS (MARTINEZ) [5 minutes]

6. DECLARE A 2.41-ACRE PARCEL LOCATED ON SWEETWATER SPRINGS BOULEVARD (APN: 505-230-51-00) AS SURPLUS AND AUTHORIZE THE DISPOSAL OF THE DECLARED PROPERTY IN ACCORDANCE WITH APPLICABLE STATUTES AND LAWS IN THE BEST INTEREST OF THE DISTRICT (DOBRAWA) [5 minutes]

7. APPROVE AN AGREEMENT WITH THE LAW FIRM OF STUTZ, ARTIANO, SHINOFF AND HOLTZ, A PROFESSIONAL CORPORATION, FOR A TERM OF TWO (2) YEARS THROUGH DECEMBER 31, 2015 TO PROVIDE GENERAL COUNSEL SERVICES TO THE DISTRICT (WATTON) [5 minutes]

8. REPORT ON THE FINDINGS OF THE LATEST ACTUARIAL VALUATION PERFORMED AS OF JUNE 30, 2013; AND THE ACTUARIAL EVALUATION DETERMINING THE NET COST OR SAVINGS OF THE OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN ENHANCEMENT VERSUS THE INCREASED EMPLOYEE CONTRIBUTIONS TO PERS (KOEPPEN) [10 minutes]

<u>RECESS TO CLOSED SESSION</u>

9. CLOSED SESSION

   a) CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION [GOVERNMENT CODE §54956.9]

      1. CASE

<u>RETURN TO OPEN SESSION</u>

10. ADJOURNMENT

BOARD MEMBERS ATTENDING:
Mitch Thompson, Chair
Jose Lopez

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.

The Agenda, and any attachments containing written information, are available at the District's website at www.otaywater.gov. Written changes to any items to be considered at the open meeting, or to any attachments, will be posted on the District's website. Copies of the Agenda and all attachments are also available through the District Secretary by contacting her at (619) 670-2280.

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, 2013 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, 2013.

______/s/_ Susan Cruz, District Secretary _____

AGENDA ITEM 3

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 6, 2013
		PROJECT:	DIV. NO. All
SUBMITTED BY:	Kevin Koeppen, Finance Manager		
APPROVED BY:	☒ Joseph R. Beachem, Chief Financial Officer ☒ German Alvarez, Assistant General Manager ☒ Mark Watton, General Manager		
SUBJECT:	Approve the District's Audited Financial Statements for the Fiscal Year Ended June 30, 2013		

GENERAL MANAGER'S RECOMMENDATION:

That the Board approve the District's Audited Financial Statements (Attachment B), including the Independent Auditors' unqualified opinion, for the fiscal year ended June 30, 2013.

COMMITTEE ACTION:

See Attachment A.

PURPOSE:

To inform the Board of the significant financial events which occurred during the fiscal year ended June 30, 2013 as reflected in the audited financial statements.

ANALYSIS:

White Nelson Diehl Evans, LLP, 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 in the financial records or statements (Attachment D). They have two comments concerning internal controls, which are presented in their "Management Letter" (Attachment C). One of the Management Letter comments is also reiterated in the "Agreed Upon Procedures" report (Attachment E).

Total Assets:

Total assets decreased by $8.4 million or 1.42% during Fiscal Year 2013, to $582.3 million, due primarily to depreciation and the write-off of CIP project expenditures that did not qualify as capital or improvements to infrastructure. Other significant factors were the annual payment of long-term debt and implementation of GASB 65.

Deferred Outflows:

In June 2013, the District issued $7.7 million of 2013 Water Revenue Refunding Bonds for an advanced refunding of its 2004 Certificates of Participation, which will be called on September 1, 2014. Excluding costs of issuance, the District received $8.5 million in proceeds, including a $1.0 million premium to fund the $8.1 million of outstanding principal and $.4 million of remaining interest payments. In accordance with GASB Nos. 23 and 65, the remaining interest payments of $.4 million are reflected as a deferred outflow of resources on the Statement of Net Position.

Total Liabilities & Net Positions:

Total liabilities decreased by approximately $2.1 million or 1.51% from the previous fiscal year, to $134.5 million. This is attributable to a decrease in long-term debt of $3.0 million.

The decrease in total assets of $8.4 million and increase in deferred outflow of resources of $.4 million, along with the decrease in total liabilities of $2.1 million, yields a decrease in net positions (equity) of $5.9 million or 1.30%, to $448.2 million.

Capital Contributions:

Capital contributions for the year totaled $2.8 million during Fiscal Year 2013, a decrease of $4.0 million or 59.34% from Fiscal Year 2012 contributions. This decrease is mainly due to the developers slowdown on many projects. The decrease is also due to the reduction in federal grant monies received.

Results of Operations:

Operating revenues increased $8.4 million or 12.40%, mainly as a result of the overall increase in water rates from the prior fiscal year and increases in units sold due to drier weather and higher temperatures.

Cost of water sales increased $4.5 million or 9.80% due to the increase in CWA water costs. The additional increase of $2.0 million is due to increases in depreciation and general and administrative expense.

Non-Operating Revenues & Expenses:

Non-operating revenues decreased $0.5 million or 5.27%, to $8.6 million for FY-2013. The decrease was primarily a result of decreased miscellaneous and investment income.

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: The auditors did not identify any deficiencies in internal controls that they considered to be material weaknesses. The auditors did identify two significant deficiencies. A significant deficiency is not considered a material weakness, yet important enough to merit attention by those charged with governance. See Attachment C.

- Audit Committee Letter: This letter describes overall aspects of the audit, to include audit principles, performance, dealings with management, and significant findings or issues.

  There were no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

  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 D.

- Report on Applying Agreed-Upon Procedures: A review of the District's investment portfolio at year-end, and a sample of specific investment transactions completed throughout the fiscal year, disclosed one exception to compliance with the District's Investment Policy. See Attachment E.

FISCAL IMPACT:

None.

STRATEGIC GOAL:

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.

LEGAL IMPACT:

None.

Attachments:

A) Committee Action Form
B) Audited Annual Financial Statements
C) Management Letter
D) Audit Committee Letter
E) Report on Applying Agreed-Upon Procedures

ATTACHMENT A

SUBJECT/PROJECT:	Approve the District’s Audited Financial Statements for the Fiscal Year Ended June 30, 2013

COMMITTEE ACTION:

The Finance, Administration, and Communications Committee recommend that the Board accept the District’s audited financial statements, including the Independent Auditor’s unqualified opinion, for the fiscal year ended June 30, 2013.

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.

Attachment B

OTAY WATER DISTRICT

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2013 AND 2012

TABLE OF CONTENTS

JUNE 30, 2013 and 2012

INDEPENDENT AUDITORS' REPORT

Board of Directors
Otay Water District
Spring Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Otay Water District as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Offices located in Orange and San Diego Counties

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Otay Water District as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

Emphasis of Matters

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, PERS Defined Benefit Pension Plan – schedule of funding progress, and Other Post-Employment Benefit Plan – schedule of funding progress on pages 4- 11 and 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October XX, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

October XX, 2013
Carlsbad, California

Management's Discussion and Analysis

As management of the Otay Water District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ending June 30, 2013. Please read it in conjunction with the District's financial statements that follow Management's Discussion and Analysis. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $448.2 million *(net position)*. Of this amount, $67.1 million *(unrestricted net position)* may be used to meet the District's ongoing obligations to citizens and creditors.

- Total assets decreased by $8.4 million or 1.42% during Fiscal Year 2013, to $582.3 million, due primarily to depreciation and the write-off of CIP projects that were no longer viable as a part of the District's long range plans for growth and improvements to infrastructure. Other significant factors were the annual payment of long-term debt, implementation of GASB 65 and a reduction in grant funds received.

Overview of the Financial Statements

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

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

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

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

Management's Discussion and Analysis

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

Financial Analysis

As noted, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets and deferred outflow of resources exceeded liabilities and deferred inflows of resources by $448.2 million at the close of the most recent fiscal year.

By far the largest portion of the District's net position, $376.5 million (84%), reflects its investment in capital assets, less any remaining outstanding debt used to acquire those assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported effectively as a resource, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statements of Net Position
(In Millions of Dollars)

	2013	2012	2011
Assets			
Current and Other Assets	$ 106.3	$ 109.9	$ 122.5
Capital Assets	476.0	480.8	474.4
Total Assets	582.3	590.7	596.9
Deferred Outflows of Resources			
Deferred amount on refunding	0.4	0.0	0.0
Total Deferred Outflows of Resources	0.4	0.0	0.0
Liabilities			
Long-Term Debt Outstanding	109.0	112.0	115.3
Other Liabilities	25.5	24.6	24.4
Total Liabilities	134.5	136.6	139.7
Net Position			
Invested in Capital Assets	376.5	381.7	377.7
Restricted for Debt Service	4.6	4.7	4.9
Unrestricted	67.1	67.7	74.6
Total Net position	$ 448.2	$ 454.1	$ 457.2

While the District's operations and population continue to grow, albeit at slower rates than in prior years, the pattern of reduced growth of the District's Net Position is indicative of the reduction in new development projects within the District. This reduction is a result of the ongoing national housing slump and financial crisis.

In FY-2013 the District continued its use of the $51.2 million of proceeds from the issuance of its 2010 Water Revenue Bonds program (See Note 4 in the Notes to Financial Statements) for its CIP program (See Note 3 in the Notes to Financial Statements), as seen by the decrease in Current and Other Assets of $3.6 million, which was partially offset by a corresponding increase in Capital Assets of $11.6 million before accumulated depreciation. The District also saw a decrease in Long-Term Debt of $3.0 million due to the annual payments of long-term debt and the advance refunding of its 2004 Certificates of Participation.

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

For the entire financial reporting period, Fiscal Years 2013 and 2012, Total Net Position decreased approximately $5.9 million for FY-2013, to $448.2 million, as compared to FY-2012 when Net Position decreased by $3.1 million. At the end of FY-2013 the District is able to report positive balances in all categories of net position. This situation also held true for the prior two fiscal years.

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

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

Water Sales increased by $5.5 million in FY-2012 and $8.4 million in FY-2013, mainly due to rate increases in both years and increased in units sold in FY13 due to drier weather and higher temperatures. The slowdown in District growth, as a result of the economic crisis, appears to have leveled off as the annual decreases in Connection and Other Fees eased from $0.3 million in FY-2012 to $0.1 million in FY-2013.

Other Operating Expense increased predominantly due to the increase in Cost of Water Sales, from a combination of the increased price-per-acre-foot of water obtained from Los Angeles Metropolitan Water District of 7.5%, and 9.1% from San Diego County Water Authority, brought on by the high cost of supply programs as well as higher energy and operating costs.

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

Non-operating Revenues

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

	2013	2012	2011
Taxes and assessments	$ 3.5	$ 3.5	$ 3.9
Rents and leases	1.3	1.2	1.2
Other Non-operating Revenue	3.8	4.4	3.7
Total Non-operating Revenues	8.6	9.1	8.8

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

Prior Period Adjustment

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

Capital Assets and Debt Administration

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

Capital Assets
(In Millions of Dollars)

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

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

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

General Obligation Bonds	$ 5.8
Certificates of Participation	46.5
Revenue Bonds	56.7
Total Long-Term Debt	$ 109.0

In June 2013, the District issued $7.7 million of 2013 Water Revenue Refunding Bonds for an advance refunding of its 2004 Certificates of Participation, which will be called on September 1, 2014. Excluding costs of issuance the District received $8.5 million in proceeds, including a $1.0 million premium, to fund the $8.1 million of outstanding principal and $.4 million of remaining interest payments. In accordance with GASB Nos. 23 and 65, the remaining interest payments of $.4 million are reflected as a deferred outflow of resources on the Statement of Net Position.

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

Fiscal Year 2013-2014 Budget

Economic Factors

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

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

Financial

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

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

Contacting the District's Financial Management

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

STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

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

(Continued)

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 73,425,100	$ 64,648,558
Receipts from connections and other fees	2,069,220	2,169,764
Other receipts	3,657,800	3,566,651
Payments to suppliers	(51,083,778)	(46,620,831)
Payments to employees	(20,491,758)	(20,521,468)
Other payments	(2,038,073)	(1,724,744)
Net Cash Provided (Used) by Operating Activities	5,538,511	1,517,930
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from taxes and assessments	3,612,045	3,493,423
Receipts from property rents and leases	1,276,914	1,222,060
Net Cash Provided (Used) by Noncapital and Related Financing Activities	4,888,959	4,715,483
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital contributions	1,515,238	3,363,090
Proceeds from sale of capital assets	-	28,128
Proceeds from debt related taxes and assessments	707,881	696,863
Net proceeds from issuance of long-term debt	8,329,385	-
Retirements of long-term debt	(8,100,000)	-
Principal payments on long-term debt	(3,320,000)	(3,146,010)
Interest payments and fees	(5,201,467)	(5,199,488)
Acquisition and construction of capital assets	(10,035,376)	(17,276,246)
Net Cash Provided (Used) by Capital and Related Financing Activities	(16,104,339)	(21,533,663)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	395,773	580,872
Proceeds from sale and maturities of investments	68,832,000	108,410,000
Purchase of investments	(60,638,762)	(112,360,000)
Net Cash Provided (Used) by Investing Activities	8,589,011	(3,369,128)
Net Increase (Decrease) in Cash and cash equivalents	2,912,142	(18,669,378)
Cash and cash equivalents, Beginning	35,133,181	53,802,559
Cash and cash equivalents, Ending	$ 38,045,323	$ 35,133,181

(Continued)

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

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

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

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

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

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

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

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

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

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

<u>Invested in Capital Assets</u>

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

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

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

Restricted Net Position

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

Unrestricted Net Position

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

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

The District recognizes revenues from water sales, wastewater revenues, and meter fees as they are earned. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego, net of allowance for delinquencies of $52,535 and $57,465 at June 30, 2013 and 2012, respectively.

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

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

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

C) New Accounting Pronouncements

Implemented

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

In fiscal year 2012-2013, the District early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the early implementation of this statement, the calculation of deferred amount on refunding was revised to eliminate the inclusion of costs that should be recognized as an expense in the period incurred and eliminated debt issuance costs which should be recognized as an expense in the period incurred. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2012 and July 1, 2011 by $2,252,393 and $2,406,704, respectively, which is the amount of unamortized debt issuance costs at July 1, 2012 and July 1, 2011, respectively.

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

C) New Accounting Pronouncements - Continued

Pending Accounting Standards

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

- GASB 66 - *"Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62"*, effective for periods beginning after December 15, 2012.

- GASB 67 - *"Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25"*, effective for the fiscal years beginning after June 15, 2013.

- GASB 68 - *"Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27"*, effective for the fiscal years beginning after June 15, 2014.

- GASB 69 - *"Government Combinations and Disposals of Government Operations"*, effective for periods beginning after December 15, 2013.

- GASB 70 - *"Accounting and Financial Reporting for Nonexchange Financial Guarantees"*, effective for the periods beginning after June 15, 2013.

D) Deferred Outflows / Inflows of Resources

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any type of these items as of June 30, 2013 or June 30, 2012.

E) Statement of Cash Flows

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

F) Investments

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

G) Inventory and Prepaids

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

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

H) Capital Assets

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

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

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

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

I) Compensated Absences

It is the District's policy to record vested or accumulated vacation and sick leave as an expense and liability as benefits accrue to employees. As of June 30, 2013 and 2012, total accrued paid time off was $2,120,399 and $1,991,841, respectively.

J) Classification of Liabilities

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

K) Allowance for Doubtful Accounts

The District charges doubtful accounts arising from water sales receivable to bad debt expense when it is probable that the accounts will be uncollectible. Uncollectible accounts are determined by the allowance method based upon prior experience and management's assessment of the collectability of existing specific accounts. The allowance for doubtful accounts was $150,000 and $14,461 for 2013 and 2012, respectively.

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

L) Use of Estimates

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

M) Property Taxes

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

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

N) Reclassifications

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

2) CASH AND INVESTMENTS

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

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

Statement of Net Position:		
Current Assets	**2013**	**2012**
Cash and Cash Equivalents	$ 33,958,281	$ 31,075,455
Restricted Cash and Cash Equivalents	4,087,042	4,057,726
Investments	31,134,182	37,069,853
Restricted Investments	13,545,284	16,124,042
Total Cash and Investments	$ 82,724,789	$ 88,327,076

Cash and Investments consist of the following:

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

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

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

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

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

2) CASH AND INVESTMENTS - Continued

Investments Authorized by Debt Agreements

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

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations are provided by the following tables that show the distribution of the District's investments by maturity as of June 30, 2013 and 2012.

June 30, 2013

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

June 30, 2012

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

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Credit Risk

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

June 30, 2013

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

June 30, 2012

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

2) CASH AND INVESTMENTS - Continued

Concentration of Credit Risk

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

June 30, 2013

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

June 30, 2012

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

Custodial Credit Risk

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

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

2) CASH AND INVESTMENTS - Continued

Local Agency Investment Fund (LAIF)

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

San Diego County Pooled Fund

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

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

Collateral for Deposits

All cash is entirely insured or collateralized.

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

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

3) CAPITAL ASSETS

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

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

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

3) CAPITAL ASSETS (Continued)

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

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

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

4) LONG-TERM DEBT

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

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

4) LONG-TERM DEBT – Continued

General Obligation Bonds

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

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

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

Future debt service requirements for the bonds are as follows:

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

4) LONG-TERM DEBT - Continued

Certificates of Participation (COPS)

In June 1996, COPS with face value of $15,400,000 were sold by the Otay Service Corporation to finance the cost of design, acquisition, and construction of certain capital improvements. An installment purchase agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS. The installment payments are to be paid from taxes and "net revenues," as described in the installment agreement. The certificates bear interest at a variable weekly rate not to exceed 12%. The variable interest rate is tied to the 30-day LIBOR index and the Securities Industry and Financial Markets Association (SIFMA) index. An irrevocable letter of credit facility is necessary to market the District's variable rate debt. This facility is with Union Bank and covers the outstanding principal and interest. The facility expires on June 29, 2014. The interest rate at June 30, 2013 was 0.05%. The installment payments are to be paid annually at $350,000 to $900,000 from September 1, 1996 through September 1, 2026.

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

In June 2013, the July 2004 COPS were refunded with the issuance of the 2013 Water Revenue Refunding Bonds (see Revenue Bonds on page 32). Proceeds of $8,575,519, which consisted of unpaid principal and accrued interest, were used to establish an irrevocable escrow to advance refund and defease in their entirety the District's 2004 COPS. Pursuant to an optional redemption clause in the 2004 COPS, the District will be able to redeem the 2004 bonds, without premium at any time after September 1, 2014. The savings between the cash flow required to service the old debt and the cash flow required to service the new debt is $763,318 and represents an economic gain on refunding of $707,071.

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

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

For the Year	1996 COPS		2007 COPS	
Ended June 30,	Principal	Interest*	Principal	Interest
2014	$ 500,000	$ 4,992	$ 955,000	$ 1,553,864
2015	500,000	4,742	995,000	1,517,301
2016	600,000	4,450	1,035,000	1,479,239
2017	600,000	4,150	1,075,000	1,439,408
2018	600,000	3,850	1,115,000	1,397,798
2019-2023	3,700,000	13,908	6,260,000	6,287,081
2024-2028	3,900,000	3,425	7,670,000	4,867,417
2029-2033	-	-	9,460,000	3,058,810
2034-2038	-	-	9,180,000	824,687
	$10,400,000	$ 39,517	$ 37,745,000	$22,425,605

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

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

4) LONG-TERM DEBT - Continued

Water Revenue Bonds

In April 2010, Water Revenue Bonds with a face value of $50,195,000 were sold by the Otay Water District Financing Authority to provide funds for the construction of water storage and transmission facilities. The bond issue consisted of two series; Water Revenue Bonds, Series 2010A (Non-AMT Tax Exempt) with a face value of $13,840,000 plus a $1,078,824 original issue premium, and Water Revenue Bonds Series 2010B (Taxable Build America Bonds) with a face value of $36,255,000. The Series 2010A bonds are due in annual installments of $785,000 to $1,295,000 from September 1, 2012 through September 1, 2025; bearing interest at 2% to 5.25%. The Series 2010B bonds are due in annual installments of $1,365,000 to $3,505,000 from September 1, 2026 through September 1, 2040; bearing interest at 6.377% to 6.577%. Interest on both Series is payable on September 1, 2010 and semiannually thereafter on March 1st and September 1st of each year until maturity or earlier redemption. The installment payments are to be made from Taxes and Net Revenues of the Water System as described in the installment purchase agreement, on parity with the payments required to be made by the District for the 1996, and 2007 Certificates of Participation described above and the 2013 Water Revenue Refunding Bonds described below.

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

The original issue premium is being amortized over the 14 year life of the Series 2010A bonds. Amortization for the year ending June 30, 2013 was $74,402 and is included in interest expense. The unamortized premium at June 30, 2013 is $837,019.

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

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

The original issue premium is being amortized over the 11 year life of the Series 2013 bonds. Amortization for the year ending June 30, 2013 was $8,008 and is included in interest expense. The unamortized premium at June 30, 2013 is $976,968.

The total amount outstanding at June 30, 2013 and aggregate maturities of the revenue bonds for the fiscal years subsequent to June 30, 2013, are as follows:

For the Year	2010 Water Revenue Bond Series A		2010 Water Revenue Bond Series B		2013 Water Revenue Refunding Bonds	
Ended June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 820,000	$ 533,538	$ -	$ 2,371,868	$ 660,000	$ 197,198
2015	845,000	508,563	-	2,371,868	605,000	258,700
2016	870,000	478,488	-	2,371,868	615,000	243,425
2017	900,000	443,088	-	2,371,868	635,000	221,500
2018	940,000	406,288	-	2,371,868	660,000	195,600
2019-2023	5,350,000	1,337,813	-	11,859,342	3,725,000	551,500
2024-2028	2,530,000	132,856	2,815,000	11,453,765	835,000	16,700
2029-2033	-	-	8,760,000	9,049,258	-	-
2034-2038	-	-	12,005,000	5,459,732	-	-
2039-2042	-	-	12,775,000	1,002,335	-	-
	$ 12,255,000	$ 3,840,632	$ 36,355,000	$ 50,683,772	$ 7,735,000	$ 1,684,623

5) NET POSITION

Designations of Net Position

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

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

6) DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

Active classic members in the Plan are required to contribute 8% of their annual covered salary. By agreement between the Employee Association and the District, the represented employees paid 5.25% of covered salaries beginning August 15, 2011. Also by agreement, the unrepresented employees began paying 4.5% of covered salaries as of July 15, 2011. Prior to these agreements all employees paid 1% of covered salaries. In these same agreements, all employees, after June 30, 2012 contributed an additional 3.5% of covered salaries. Effective January 1, 2013, classic employees contributed an additional 2.75% of covered salaries. For new members (employees hired on or after January 1, 2013 and are new entrants to the PERS System), employees pay a 6.25% contribution. The District is required to contribute the actuarially determined remaining amounts necessary to fund the 2.7% at age 55 retirement plan benefits for its classic members and 2.0% at age 62 for its new members under the California Employees' Pension Reform Act (PEPRA) provisions. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2013 was 24.318%. The contribution requirements of the Plan members are established by State statute and the employer contribution rate is established and may be amended by the CalPERS.

6) DEFINED BENEFIT PENSION PLAN - Continued

Annual Pension Costs

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

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

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

Initial unfunded liabilities are amortized over a closed period that depends on the Plan's date of entry into CalPERS. Subsequent Plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of the plan assets, then the amortization payment of the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/13	$ 3,130,754	100%	$ 0
6/30/12	$ 2,951,409	100%	$ 0
6/30/11	$ 2,427,744	100%	$ 0

Funded Status and Funding Progress

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

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

7) OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

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

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

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. Effective January 1, 2013, represented employees hired prior to January 1, 2013 or hired on or after January 1, 2013 from another public agency that has reciprocity without having a break in service of more than six months, contribute .75% of covered salaries. In addition, unrepresented and represented employees hired on or after January 1, 2013, and do not have reciprocity from another public agency, contribute 1.75% and 2.5% of covered salaries, respectively. DPHP members receiving benefits contribute based on their selected plan options of EPO, HMO or Gold, and whether they are located outside the State of California. Contributions by plan members range from $0 to $149 per month for coverage to age 65, and from $0 to $148 per month, respectively, thereafter.

Annual OPEB Cost and Net OPEB Obligation/Asset

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

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

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

7) OTHER POST EMPLOYMENT BENEFITS - Continued

For 2013, in addition to the ARC, the District contributed cash benefit payments outside the trust (healthcare premium payments for retirees to Special District Risk Management Authority (SDRMA) in the amount of $877,196, which is included in the $2,250,198 of contributions shown on the previous page. For 2012 this amount was $749,871, which is included in the $2,144,871 of contributions shown on the previous page.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation/asset for the fiscal years 2013, 2012 and 2011 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT

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

Funded Status and Funding Progress

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

Actuarial Accrued Liability (AAL)	$ 22,891,000
Actuarial Value of Plan Assets	$ 11,831,000
Unfunded Actuarial Accrued Liability (UAAL)	$ 11,060,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)	51.68%
Covered Payroll (Active Plan Members)	$ 12,833,000
UAAL as a Percentage of Covered Payroll	86.18%

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

7) OTHER POST EMPLOYMENT BENEFITS - Continued

Actuarial Methods and Assumptions

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

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

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	24 Year fixed (closed) period as of the Valuation Date
Asset Valuation Method	5 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.25% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	3.00%
Individual Salary Growth	CalPERS 1997-2007 Experience Study
Healthcare Cost Trend Rate	Medical: 10% per annum graded down in approximately one-half percent increments to an ultimate rate of 5%. Dental: 4% per annum.

8) WATER CONSERVATION AUTHORITY

In 1999 the District formed the Water Conservation Authority (the "Authority"), a Joint Powers Authority, with other local entities to construct, maintain and operate a xeriscape demonstration garden in the furtherance of water conservation. The authority is a non-profit public charity organization and is exempt from income taxes. During the years ended June 30, 2013 and 2012, the District contributed $120,684 and $121,617, respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

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

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

9) COMMITMENTS AND CONTINGENCIES

Construction Commitments

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

Litigation

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

Refundable Terminal Storage Fees

The District has entered into an agreement with several developers whereby the developers prepaid the terminal storage fee in order to provide the District with the funds necessary to build additional storage capacity. The agreement further allows the developers to relinquish all or a portion of such water storage capacity. If the District grants to another property owner the relinquished storage capacity, the District shall refund to the applicable developer $746 per equivalent dwelling unit (EDU). There were 17,867 EDUs that were subject to this agreement. At June 30, 2012, 1,751 EDUs had been relinquished and refunded, 15,026 EDUs had been connected, and 1,090 EDUs have neither been relinquished nor connected. At June 30, 2013, 1,751 EDUs had been relinquished and refunded, 15,031 EDUs had been connected, and 1,085 EDUs have neither been relinquished nor connected.

Developer Agreements

The District has entered into various Developer Agreements with developers towards the expansion of District facilities. The developers agree to make certain improvements and after the completion of the projects the District agrees to reimburse such improvements with a maximum reimbursement amount for each developer. Contractually, the District does not incur a liability for the work until the work is accepted by the District. As of June 30, 2013, none of the outstanding developer agreements had been accepted, however it is anticipated that the District will be liable for an amount not to exceed $341,046 at the point of acceptance. Accordingly, the District has accrued a liability as of year end.

10) RISK MANAGEMENT

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

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

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

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

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

10) RISK MANAGEMENT (Continued)

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

Property Loss: Replacement cost, for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of $1 Billion per occurrence, subject to a $2,000 deductible per occurrence, effective July 1, 2012.

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

Public Officials Personal Liability: $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage's, deductible of $500 per claim, effective July 1, 2012.

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

Workers' Compensation Coverage and Employer's Liability: Statutory limits per occurrence for Workers' Compensation and $5.0 Million for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, effective July 1, 2012.

Health Insurance

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

Adequacy of Protection

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

11) INTEREST EXPENSE

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

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

12) PRIOR PERIOD ADJUSTMENT and RESTATEMENT OF 2012 BALANCES

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

13) SEGMENT INFORMATION

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

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

Condensed Statement of Net Position
June 30, 2013

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

13) SEGMENT INFORMATION - Continued

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

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

13) SEGMENT INFORMATION - Continued

Condensed Statement of Cash Flows

For The Year Ended June 30, 2013

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

Required Supplementary Information
Years Ended June 30, 2013 and 2012

Schedule of Funding Progress for PERS

Actuarial Valuation Date		Actuarial Value of Assets (A)		Actuarial Accrued Liability (AAL) Entry Age (B)		Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)		Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
6/30/11 Miscellaneous	$	62,435,349	$	88,411,019	$	25,975,670	70.6%	$	12,289,529	211.4%
6/30/10 Miscellaneous	$	57,613,987	$	81,306,934	$	23,692,947	70.9%	$	12,140,989	195.1%
6/30/09 Miscellaneous	$	53,736,612	$	75,300,790	$	21,564,178	71.4%	$	11,880,481	181.5%

Schedule of Funding Progress for DPHP

Actuarial Valuation Date		Actuarial Value of Assets (A)		Actuarial Accrued Liability (AAL) Entry Age (B)		Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)		Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
6/30/13 Miscellaneous	$	11,831,000	$	22,891,000	$	11,060,000	51.68%	$	12,833,000	86.18%
6/30/11 Miscellaneous	$	7,893,000	$	18,289,000	$	10,396,000	43.16%	$	12,429,000	83.64%
6/30/09 Miscellaneous	$	6,273,000	$	10,070,000	$	3,797,000	62.29%	$	11,878,000	31.97%

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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 and Management
of Otay Water District
Spring Valley, California

We have audited, in accordance with the 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, the financial statements of the Otay Water District as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Otay Water District's basic financial statements and have issued our report thereon dated October XX, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Otay Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Otay Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Otay Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

Billing Customers Authorized Rates

In the course of our audit of the District's internal control over utility billing, we noted that a rate increase was not applied in the time frame directed by the Board of Directors. A rate increase was voted to take effect for all bills mailed after January 1, 2013. District policy required that a 30 day notice be sent to customers before the new rates could take effect. This notice was not mailed in time for certain billing cycles to be billed the new rates. As a result, certain customers were billed during January 2013, at the old rates, and not billed under the new rates until February 2013.

Management Response:

Staff does not disagree with any of the facts in the above statement.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 grant agreements, 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 instances of noncompliance or other matters, described below, that are required to be reported under *Government Auditing Standards*.

Compliance with Investment Policy

In the course of our audit of the District's compliance with their investment policy, we noted that the District held one investment, a Farmer Mac Note that was not in compliance with their investment policy at June 30, 2013.

Management Response:

Staff agrees with the management comment. The investment should not have been purchased at that time. The investment is a safe investment in a government sponsored entity (GSE), allowable under state code, and is similar to other government sponsored entities in which the District invests. The investment was made during a time period where staff was in the process of updating the investment policy, which included updating the listing of allowable GSE's, including the GSE references in the management comment.

Otay Water District's Responses to Findings

Otay Water District's responses to the findings identified in our audit are shown above. Otay Water District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing in internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October XX, 2013
Carlsbad, CA

WHITE NELSON DIEHL EVANS LLP
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Board of Directors
Audit Committee
Otay Water District
Spring Valley, California

We have audited the basic financial statements of the Otay Water District (the District) for the year ended June 30, 2013 and have issued our report thereon dated October XX, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated January 15, 2013 and well as in a meeting with Board President Jose Lopez on July 11, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As discussed in Note 1c to the basic financial statements, the District incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Also discussed in Note 1c to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard required retrospective application resulting in a $2,252,393 reduction of previously reported net position as of the beginning of the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

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 estimates affecting the District's financial statements were:

a. Management's estimate of the fair market value of investments which is based on market values provided by outside sources.

b. Management's estimate of useful lives of capital assets for depreciation purposes is based on industry standards.

c. The funded status and funding progress of the public defined benefit plan with CalPERS is based on an actuarial valuation.

d. The funded status and funding progress of the Other Post-Employment Benefits is based on an actuarial valuation.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was reported in Note 6 regarding the defined benefit pension plan and Note 7 regarding Other Post-Employment Benefits.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Significant Audit Findings (Continued)

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. As a result of our audit related test work, we proposed no corrections to the financial statements that, in our judgment, had a significant effect on the District's financial reporting process.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October XX, 2013.

Management 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 District'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.

Other Audit Findings or Issues

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.

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

October XX, 2013
Carlsbad, CA

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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Mr. Joseph Beachem
Chief Financial Officer
Otay Water District
Spring Valley, CA

We have performed the procedures enumerated below, which were agreed to by the Otay Water District (the "District") solely to assist the District's senior management in evaluating the investments of the District for the fiscal year ended June 30, 2013. The District's management is responsible for the evaluation of the investments of the District. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Obtain a copy of the District's investment policy and determine that it is in effect for the fiscal year ended June 30, 2013.
    a. Findings: At June 30, 2013, the current investment policy (Policy #27) is dated August 10, 2011. This policy was reviewed and approved for the 2012/2013 fiscal year as Consent Item #7e at the August 1, 2012 Regular Board Meeting. Therefore the investment policy is in effect for the time period under review.

2. Select 4 investments held at year end and determine if they are allowable investments under the District's Investment Policy.
    a. Findings: Four investments chosen were FHLB – Maturity 11/27/2013, FHLMC – Maturity 12/10/2014, FFCB – Maturity 3/12/2015, Farmer Mac Note – Maturity 1/25/2016. The Farmer Mac Note was not an authorized investment at June 30, 2013. The other three investments are allowable and within maturity limits as stated in the District's Investment Policy at June 30, 2013.

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3. For the four investments selected in #2 above, determine if they are held by a third party custodian designated by the District.
    a. Findings: Per discussion with District management and evidenced by Union Bank of California statement, Union Bank does not act as a broker dealer for the District but acts as a custodial agent of the District holding the investment in a trust department. The four investments examined are held by a third party custodian designated by the District in compliance with District Policy.

4. Confirm the par or original investment amount and market value for the four investments selected above with the custodian or issuer of the investments.
    a. Findings: Investment values confirmed with Union Bank of California at June 30, 2013 with no exceptions.

5. Select two investment earnings transactions that took place during the year and recompute the earnings to determine if the proper amount was received.
    a. Findings: Investment earnings recalculated with no exceptions for two transactions selected.

6. Trace amounts received for transactions selected at #5 above into the District's bank accounts.
    a. Transactions traced into District's Union Bank of California Money Market account with no exceptions for the two transactions selected.

7. Select five investment transactions (buy, sell, trade or maturity) occurring during the year under review and determine that the transactions are permissible under the District's investment policy.
    a. Findings: Reviewed five investment transactions. All transactions were permissible under the District's Investment Policy.

8. Review the supporting documents for the five investments selected at #7 above to determine if the transactions were appropriately recorded in the District's general ledger.
    a. Findings: Five investments selected at #7 above were appropriately recorded in the District's General Ledger without exception.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the investments of the District for the fiscal year ending June 30, 2013. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is limited solely for the information and use of the Board and senior management of the Otay Water District and is not intended to be and should not be used by anyone other than those specified parties.

October XX, 2013
Carlsbad, California

AGENDA ITEM 4

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 6, 2013
		PROJECT:	DIV. NO. All
SUBMITTED BY:	Rita Bell, Finance Manager		
APPROVED BY:	☒ Joseph R. Beachem, Chief Financial Officer ☒ German Alvarez, Assistant General Manager ☒ Mark Watton, General Manager		
SUBJECT:	Resolutions of Intention to Consolidate Improvement District (ID) 19 into ID 22 and ID 25 into ID 20 and Authorizing Required Advertising of these Resolutions as Required by the Water Code and Government Code		

GENERAL MANAGER'S RECOMMENDATION:

That the Board approve the attached Resolutions of Intention, Nos. 4219 and 4220, that are necessary to initiate the process for the exclusion of parcels within Improvement Districts (IDs) 19 and 25. Concurrent with said action, that the Board also approve the attached Resolutions of Intention, Nos. 4221 and 4222 that are necessary to initiate the process for the annexation of the excluded parcels in IDs 19 and 25 into IDs 22 and 20, respectively.

PURPOSE:

That the Board authorize and initiate the process for the exclusion of parcels within Improvement Districts (IDs) 19 and 25 to be annexed into IDs 22 and 20, respectively.

Authorize staff to advertise per Government Code Section 6066 the attached Resolutions of Intention 4219, 4220, 4221, and 4222 for a period of two weeks. Once this requirement has been complied with, a second set of resolutions will be presented to confirm the exclusions and annexations. Direct staff to submit the appropriate forms and fees required to complete the Board action with the State Board of Equalization and the County of San Diego that would exclude parcels within IDs 19 and 25 to be annexed into IDs 22 and 20, respectively. A subsequent action will request that IDs 19 and 25 be dissolved effective July 1, 2014.

ANALYSIS:

On May 14, 2013, the Board directed staff to move forward with the consolidation process. This action is the first of two necessary steps to complete this consolidation. Once the exclusion and annexation are initiated by the Board, staff will publish the resolutions as required by statute and then the Board will have the ability to confirm the exclusion and annexation at a subsequent meeting. The exclusion will then become effective on the 31st day after completion of the publication and posting of the resolutions to exclude. The annexations become effective after the date of the adoption of the resolutions approving the annexation.

The availability charges and water rates and charges are identical between IDs 19 and 22 and IDs 25 and 20, and staff has determined that there is no longer a reason to separate these parcels. This will streamline the accounting and tracking of these parcels within the District's various information systems.

Because the proposed consolidation technically imposes a "new" charge on customers, in compliance with the Proposition 218 requirements notices were sent to all customers within these IDs to inform them of their option to protest rate changes. The required public hearing took place at the September 4, 2013 Board Meeting where the Board determined there were no protests regarding this action.

FISCAL IMPACT: ☒ Joe Beachem, Chief Financial Officer

None.

STRATEGIC GOAL:

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.

Attachments:

A) Committee Action
B) Resolution No. 4219
C) Resolution No. 4220
D) Resolution No. 4221
E) Resolution No. 4222

ATTACHMENT A

SUBJECT/PROJECT:	Resolutions of Intention to Consolidate Improvement District (ID) 19 into ID 22 and ID 25 into ID 20 and Authorizing Required Advertising of these Resolutions as Required by the Water Code and Government Code

COMMITTEE ACTION:

That the Finance, Administration and Communications Committee recommend that the Board approve the attached Resolutions of Intention, Nos. 4219 and 4220, that are necessary to initiate the process for the exclusion of parcels within Improvement Districts (IDs) 19 and 25. Concurrent with said action, that the Board also approve the attached Resolutions of Intention, Nos. 4221 and 4222 that are necessary to initiate the process for the annexation of the excluded parcels in IDs 19 and 25 into IDs 22 and 20, respectively.

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.

RESOLUTION NO. 4219

RESOLUTION OF THE BOARD OF DIRECTORS OF OTAY WATER DISTRICT DECLARING ITS INTENTION TO EXCLUDE PARCELS FROM IMPROVEMENT DISTRICT 19

WHEREAS, on April 19th, 1971 by Resolution No. 866, the Otay Water District Board of Directors ("Board") formed Improvement District ("ID") 19 for the purpose of incurring necessary bonded indebtedness for the acquisition, construction and completion of water improvements and works; and

WHEREAS, on July 3rd, 1972 by Resolution No. 986, the Board formed ID 22 for the purpose of incurring necessary bonded indebtedness for the acquisition, construction, and completion of water improvements and works; and

WHEREAS, the availability charges and water rates and charges are identical between IDs 19 and 22; and

WHEREAS, staff has determined that there is no longer a reason to separate these parcels; and

WHEREAS, by initiating proceedings to consolidate ID 19 into ID 22 it would streamline the accounting and tracking of these parcels; and

WHEREAS, the Board hereby declares, by its own motion, its intention to exclude parcels in ID 19 pursuant to Water Code Sections 72080, *et seq.*, with an eye towards annexing the excluded parcels into ID 22; and

WHEREAS, in compliance with Proposition 218, the Otay Water District held the required public hearing on the new fees and charges for the parcels excluded from ID 19 and annexed into ID 22, if approved, at its September 4, 2013 Board meeting, where the Board determined that there were no protests regarding this action;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. That the Board of Directors, on its own motion, does hereby declare its intention to exclude parcels within ID 19, as identified in Exhibit 1 to this resolution.

2. That the taxes for carrying out the purposes of ID 19 will not be levied upon taxable property in the excluded territory following such exclusion.

3. That there is no bond debt on ID 19 and, therefore, taxes for the payment of principal and interest on any outstanding bonds of ID 19 will not be levied upon taxable property in the excluded territory following such exclusion.

4. That, following such exclusion, the taxable property in the territory remaining in ID 19, if any, shall continue to be levied upon and taxed to provide funds for the purposes of ID 19.

5. That a map showing the exterior boundaries of the proposed territory to be excluded, with relation to the territory remaining in ID 19, is on file with the Secretary of the District and is available for inspection by any person or persons interested. Said map shall govern for all details as to the extent of the proposed exclusion.

6. That notice is hereby given that a hearing shall be held by the Board on Wednesday, November 6, 2013, at 3:30 p.m. on the questions of the proposed exclusion and the effect of such exclusion upon the Otay Water District, ID 19 and the territory to be excluded. At such time and place, any person interested, including all persons owning property in the Otay Water District or in ID 19, will be heard.

BE IT FURTHER RESOLVED that the Board directs staff to provide notice of the proposed exclusion and publish a copy of this Resolution of Intention to Exclude pursuant to and consistent with Government Code section 6066 and Water Code section 72084.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a regular meeting held this 6th day of November, 2013.

President

ATTEST:

Secretary


Exhibit 1
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Id 19
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Id 05
Id 22
Id 10
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Miles

RESOLUTION NO. 4220

RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT DECLARING ITS
INTENTION TO EXCLUDE PARCELS FROM
IMPROVEMENT DISTRICT 25

WHEREAS, on May 1st, 1978 by Resolution No. 1498, the Otay Water District Board of Directors (“Board”) formed Improvement District (“ID”) 25 for the purpose of incurring bonded indebtedness for the construction of a water transmission and distribution system; and

WHEREAS, on May 17th, 1971 by Resolution No. 880, the Board formed ID 20 for the purpose of incurring necessary bonded indebtedness for the acquisition, construction, and completion of water improvements and works; and

WHEREAS, the availability charges and water rates and charges are identical between IDs 25 and 20; and

WHEREAS, staff has determined that there is no longer a reason to separate these parcels; and

WHEREAS, by initiating proceedings to consolidate ID 25 into ID 20 it would streamline the accounting and tracking of these parcels; and

WHEREAS, the Board hereby declares, by its own motion, its intention to exclude parcels in ID 25 pursuant to Water Code Sections 72080, *et seq.*, with an eye towards annexing the excluded parcels into ID 20; and

WHEREAS, in compliance with Proposition 218, the Otay Water District held the required public hearing on the new fees and charges for the parcels excluded from ID 25 and annexed into ID 20, if approved, at its September 4, 2013 Board meeting, where the Board determined that there were no protests regarding this action;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. That the Board of Directors, on its own motion, does hereby declare its intention to exclude parcels within ID 25, as identified in Exhibit 1 to this resolution.

2. That the taxes for carrying out the purposes of ID 25 will not be levied upon taxable property in the excluded territory following such exclusion.

3. That there is no bond debt on ID 25 and, therefore, taxes for the payment of principal and interest on any outstanding bonds of ID 25 will not be levied upon taxable property in the excluded territory following such exclusion.

4. That, following such exclusion, the taxable property in the territory remaining in ID 25, if any, shall continue to be levied upon and taxed to provide funds for the purposes of ID 25.

5. That a map showing the exterior boundaries of the proposed territory to be excluded, with relation to the territory remaining in ID 25, is on file with the Secretary of the District and is available for inspection by any person or persons interested. Said map shall govern for all details as to the extent of the proposed exclusion.

6. That notice is hereby given that a hearing shall be held by the Board on Wednesday, November 6, 2013, at 3:30 p.m. on the questions of the proposed exclusion and the effect of such exclusion upon the Otay Water District, ID 25 and the territory to be excluded. At such time and place, any person interested, including all persons owning property in the Otay Water District or in ID 25, will be heard.

BE IT FURTHER RESOLVED that the Board directs staff to provide notice of the proposed exclusion and publish a copy of this Resolution of Intention to Exclude pursuant to and consistent with Government Code section 6066 and Water Code section 72084.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a regular meeting held this 6th day of November, 2013.

President

ATTEST:

Secretary

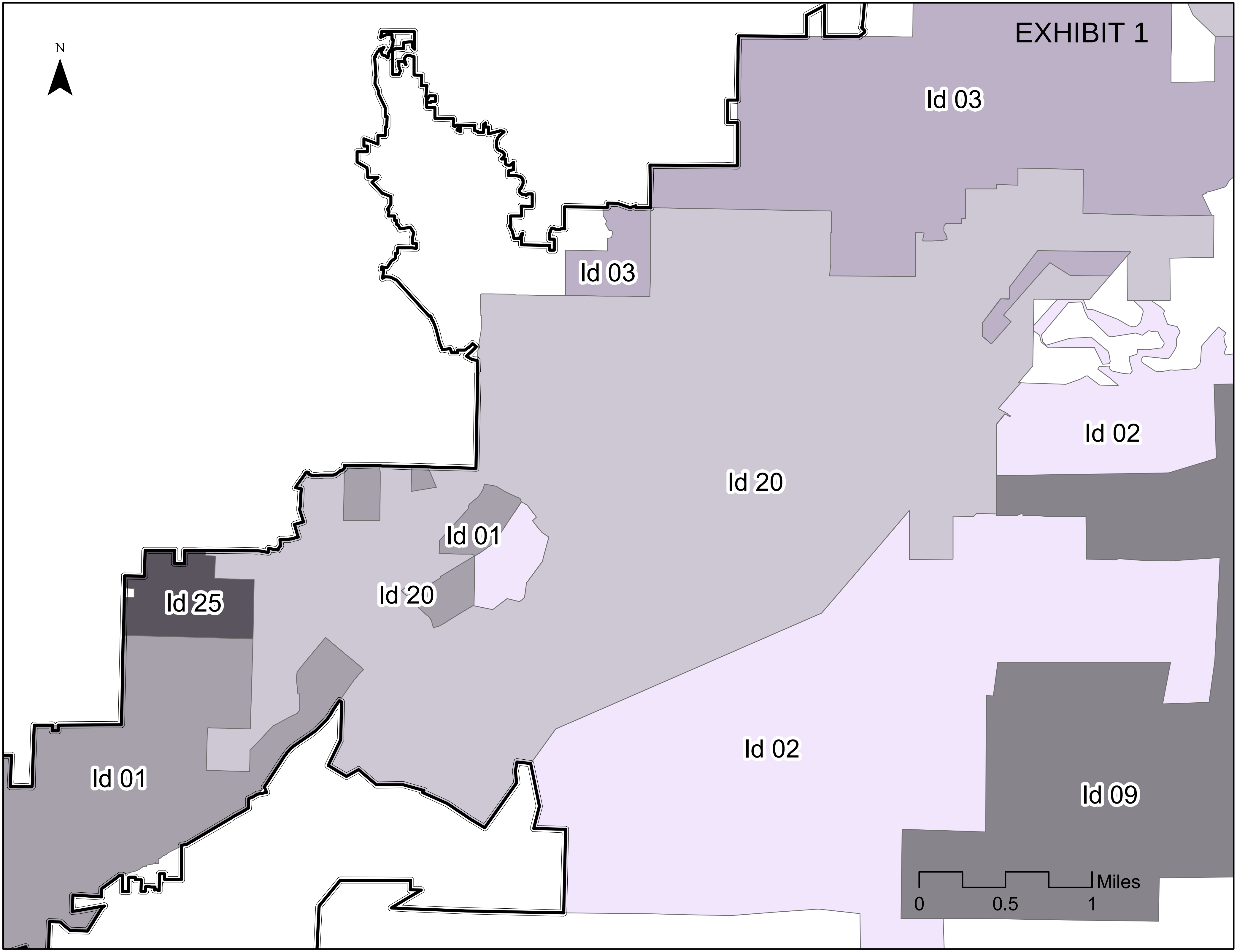
EXHIBIT 1
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Id 02
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RESOLUTION NO. 4221

A RESOLUTION OF THE BOARD OF DIRECTORS OF OTAY WATER DISTRICT DECLARING ITS INTENTION TO ANNEX PARCELS EXCLUDED FROM IMPROVEMENT DISTRICT 19 INTO IMPROVEMENT DISTRICT 22

WHEREAS, on April 19th, 1971 by Resolution No. 866, the Otay Water District Board of Directors ("Board") formed Improvement District ("ID") 19 for the purpose of incurring necessary bonded indebtedness for the acquisition, construction and completion of water improvements and works; and

WHEREAS, on July 3rd, 1972 by Resolution No. 986, the Board formed ID 22 for the purpose of incurring necessary bonded indebtedness for the acquisition, construction, and completion of water improvements and works; and

WHEREAS, the availability charges and water rates and charges are identical between IDs 19 and 22; and

WHEREAS, staff has determined that there is no longer a reason to separate these parcels; and

WHEREAS, by initiating proceedings to consolidate ID 19 into ID 22 it would streamline the accounting and tracking of these parcels; and

WHEREAS, the Board hereby declares its intention to annex parcels excluded from ID 19, if approved, into ID 22, pursuant to Water Code sections 72700, *et seq.*; and

WHEREAS, in compliance with Proposition 218, the Otay Water District held the required public hearing on the new fees and changes for the parcels excluded from ID 19 and annexed into ID 22, if approved, at its September 4, 2013 Board meeting, where the Board determined that there were no protests regarding this action;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. That the Board of Directors, pursuant to Water Code sections 72700, *et seq.*, does hereby declare its intention to annex the parcels excluded from ID 19, if approved, into ID 22, as described in Exhibit "1":

2. That the purpose of the proposed annexation, in conjunction with the exclusion of parcels from ID 19, is to streamline the accounting and tracking of parcels in IDs with the same availability charges and water rates and charges, thereby increasing efficiencies for the Otay Water District without resulting in any changes to the fees or charges imposed on property owners.

3. A depiction of the area proposed to be annexed, and the boundaries of IDs 19 and 22 following the annexation, is set forth on a map in Exhibit "1" filed with the Secretary of the District, which map shall govern for all details as to the area proposed to be annexed.

4. That the annexation of said parcels is subject to the owners complying with the following terms and conditions:

(a) Payment of yearly assessment fees of $30.00 per acre of land and $10.00 per parcel of land less than one acre which will be collected through the County Tax Assessor's office.

(c) In the event that water service is to be provided, the payment of all applicable water meter fees per Equipment Dwelling Unit (EDU) at the time the meter is purchased.

(d) Payment of all other applicable local or state agency fees or charges.

5. That the holders of title to any of the parcels to be annexed may file written protests with the Secretary of the District regarding the annexation or the annexation upon the terms and conditions identified above, to the following address:

District Secretary
Otay Water District
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91978

4. That notice is hereby given that a hearing shall be held by the Board on Wednesday, November 6, 2013, at 3:30 p.m. at which the Board will receive written protests theretofore filed with the Secretary of the District, receive additional written protests, and hear from any and all persons interested in the annexation.

BE IT FURTHER RESOLVED that the Board directs staff to provide notice of the proposed annexation and publish and post a copy of this Resolution of Intention to Annex pursuant to and consistent with Government Code section 6066 and Water Code sections 72702 and 72703.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a regular meeting held this 6th day of November, 2013.

____
President

ATTEST:

____
District Secretary


EXHIBIT I
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RESOLUTION NO. 4222

A RESOLUTION OF THE BOARD OF DIRECTORS OF OTAY WATER DISTRICT DECLARING ITS INTENTION TO ANNEX PARCELS EXCLUDED FROM IMPROVEMENT DISTRICT 25 INTO IMPROVEMENT DISTRICT 20

WHEREAS, on May 1st, 1978 by Resolution No. 1498, the Otay Water District Board of Directors ("Board") formed Improvement District ("ID") 25 for the purpose of incurring bonded indebtedness for the construction of a water transmission and distribution system; and

WHEREAS, on May 17th, 1971 by Resolution No. 880, the Board formed ID 20 for the purpose of incurring necessary bonded indebtedness for the acquisition, construction, and completion of water improvements and works; and

WHEREAS, the availability charges and water rates and charges are identical between IDs 25 and 20; and

WHEREAS, staff has determined that there is no longer a reason to separate these parcels; and

WHEREAS, by initiating proceedings to consolidate ID 25 into ID 20 it would streamline the accounting and tracking of these parcels; and

WHEREAS, the Board hereby declares its intention to annex parcels excluded from ID 20, if approved, into ID 25, pursuant to Water Code sections 72700, *et seq.*; and

WHEREAS, in compliance with Proposition 218, the Otay Water District held the required public hearing on the new fees and changes for the parcels excluded from ID 25 and annexed into ID 20, if approved, at its September 4, 2013 Board meeting, where the Board determined that there were no protests regarding this action;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. That the Board of Directors, pursuant to Water Code sections 72700, *et seq.*, does hereby declare its intention to annex the parcels excluded from ID 25, if approved, into ID 20, as described in Exhibit "1":

2. That the purpose of the proposed annexation, in conjunction with the exclusion of parcels from ID 25, is to streamline the accounting and tracking of parcels in IDs with the same availability charges and water rates and charges, thereby increasing efficiencies for the Otay Water District without resulting in any changes to the fees or charges imposed on property owners.

3. A depiction of the area proposed to be annexed, and the boundaries of IDs 25 and 20 following the annexation, is set forth on a map in Exhibit “1” filed with the Secretary of the District, which map shall govern for all details as to the area proposed to be annexed.

4. That the annexation of said parcels is subject to the owners complying with the following terms and conditions:

(a) Payment of yearly assessment fees of $30.00 per acre of land and $10.00 per parcel of land less than one acre which will be collected through the County Tax Assessor’s office.

(c) In the event that water service is to be provided, the payment of all applicable water meter fees per Equipment Dwelling Unit (EDU) at the time the meter is purchased.

(d) Payment of all other applicable local or state agency fees or charges.

5. That the holders of title to any of the parcels to be annexed may file written protests with the Secretary of the District regarding the annexation or the annexation upon the terms and conditions identified above, to the following address:

District Secretary
Otay Water District
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91978

4. That notice is hereby given that a hearing shall be held by the Board on Wednesday, November 6, 2013, at 3:30 p.m. at which the Board will receive written protests theretofore filed with the Secretary of the District, receive additional written protests, and hear from any and all persons interested in the annexation.

BE IT FURTHER RESOLVED that the Board directs staff to provide notice of the proposed annexation and publish and post a copy of this Resolution of Intention to Annex pursuant to and consistent with Government Code section 6066 and Water Code sections 72702 and 72703.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a regular meeting held this 6th day of November, 2013.

____
President

ATTEST:

____
District Secretary

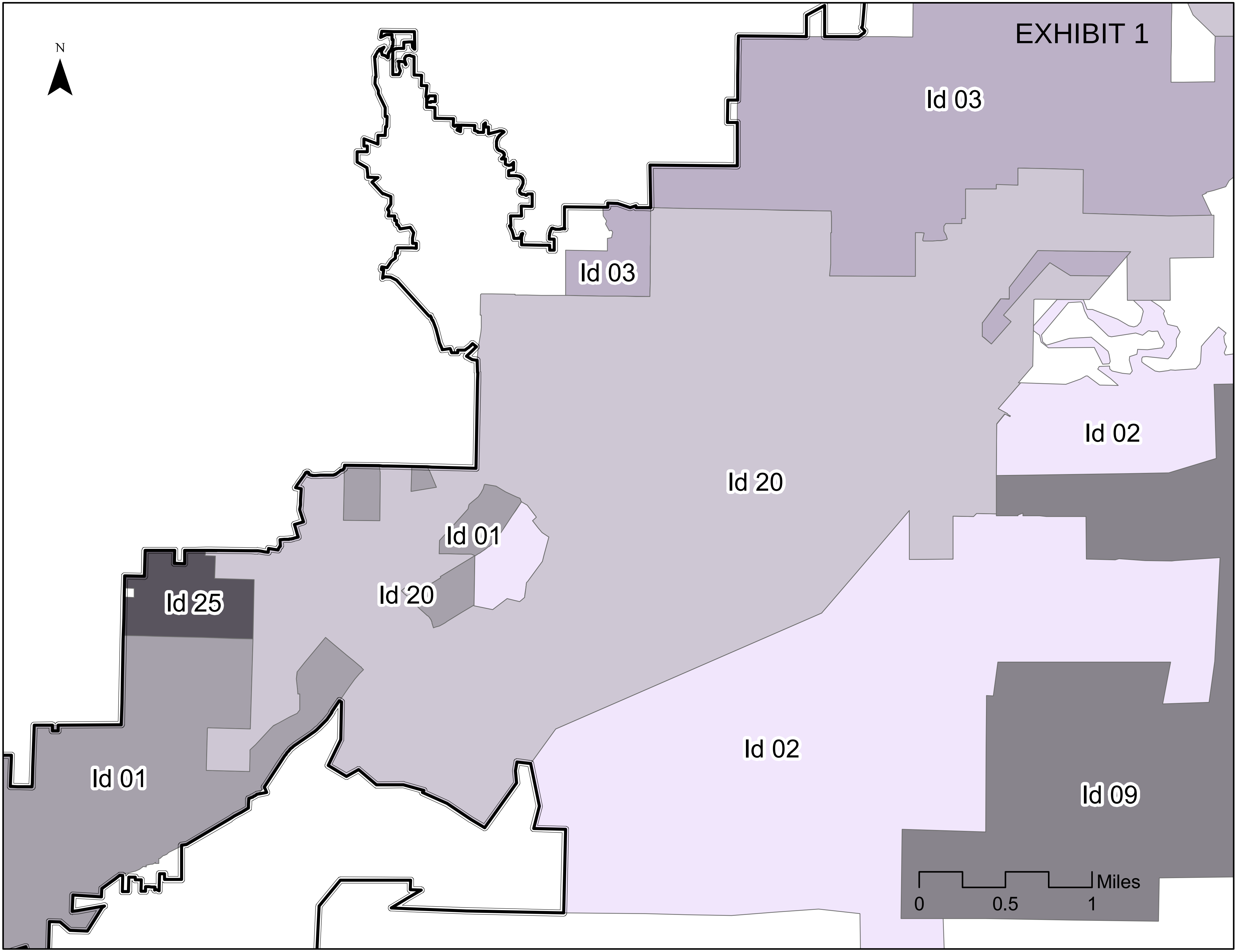
EXHIBIT 1
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AGENDA ITEM 5

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 6, 2013		
SUBMITTED BY:	Jose Martinez, Utility Services Manager	PROJECT:	P2282	DIV. NO.	ALL
APPROVED BY:	☒ Pedro Porras, Chief Water Operations ☒ German Alvarez, Asst. General Manager ☒ Mark Watton, General Manager				
SUBJECT:	Approval to Purchase Utility Crew Truck				

GENERAL MANAGER'S RECOMMENDATION:

That the Board authorize the General Manager to: 1) Issue a purchase order to Inland Kenworth in the amount of $175,876.30 for the purchase of one (1) New Kenworth Utility Crew Truck and 2) declare Unit No. 111 Utility Crew Truck surplus.

COMMITTEE ACTION:

See Attachment "A".

PURPOSE:

To obtain Board authorization to purchase a Utility Crew Truck.

ANALYSIS:

Included in the approved FY 2014 budget is one (1) new Utility Crew Truck. The Utility Crew Truck is a replacement vehicle for existing Unit No. 111 and is scheduled to be utilized by the Utility Maintenance Staff.

The crew truck shown on Attachment "B" provides the Utility Maintenance crews with job site access to equipment such as the tools, parts, cranes, generators, air compressors and the safety equipment needed to perform repairs in a timely manner.

Additionally, the crew truck transports the District's heavy-construction equipment including backhoes, skid steers, shoring trailers, etc. The utility crew truck is the most utilized vehicle by the crews when performing the maintenance and repair of the District's infrastructure.

Unit No. 111 is a 1999 GMC C-8500 Class 8 Utility Crew Truck. This unit is 14 years old and has 72,100 chassis miles. Due to the nature of the vehicle's work the useful in-service life of this machine is 7-10 years. Funding for this purchase has been included in P2282 – Vehicle Replacement.

Based on system operation evaluations of work flow by the Construction/Maintenance supervision and management, it is recommended that one (1) new Kenworth Utility Crew Truck be purchased and the older utility truck be declared surplus. Staff evaluated alternative manufacturers and obtained recent pricing paid by other agencies for comparable units. Based on the information obtained it was determined that Kenworth was the one with the best value for the District, therefore, we solicited three quotes in accordance with District policy.

Quotes received include all applicable fees, taxes, and delivery.

Dealer	Vehicle Bid	Quote Price
Inland Kenworth El Cajon	Kenworth T-370 Truck with Utility Body and Crane	$175,876.30
Summit Truck Bodies	Kenworth T-370 Truck with Utility Body and Crane	$176,948.88
Inland Kenworth Montebello	Kenworth T-370 Truck with Utility Body and Crane	$179,352.82

FISCAL IMPACT: ☒ Joe Beachem, Chief Financial Officer

Projected purchase budget for this vehicle is $170,000.00 The purchase of this vehicle will cost $175,876.30 which will be charged against the Vehicle Replacement CIP P2282. As a result of savings in the actual costs of replacement of other CIP budgeted items, and the elimination of two replacement vehicles that are no loger required due to staffing needs, the total projected expenses for this fiscal year will be under the the approved budget amount.

The total FY 2014 project budget for vehicle replacements is $632,200.00. Existing expenditures and current encumbrances for the CIP, including the vehicle purchased under this request if approved, are $579,994.63. This will complete the purchases for vehicle replacements for this fiscal year.

Based on the Utility Service Manager's evaluation, the FY 2014 vehicle replacement budget is sufficient to complete the budgeted purchase.

The Finance Department has determined that 100% of the funds are available in the replacement fund.

Expenditure Summary:

FY14 Vehicle Replacement Budget:	$632,200.00
FY13 Expenditures and Encumbrances to Date: Vehicle Replacement of existing fleet.	$366,118.33
Scheduled Vehicle Replacement:	$38,000.00
Proposed Vehicle Purchase:	$175,876.30
Projected Expenditures of Vehicle Replacement FY12 CIP 2282 Budget:	$579,994.63

STRATEGIC GOAL:

Operate the system to meet demand twenty-four-hours a day, seven days a week.

LEGAL IMPACT:

None.

____
General Manager

Attachment "A", Committee Action
Attachment "B", Utility Crew Truck Photo

ATTACHMENT A

SUBJECT/PROJECT:	Approval to Purchase Utility Crew Truck

COMMITTEE ACTION:

The Finance, Administration and Communications Committee met on October 22, 2013 and supported staffs' recommendation.

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.

ATTACHMENT B

AGENDA ITEM 6

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 6, 2013
		PROJECT:	Various DIV. NO. All
SUBMITTED BY:	Stephen Dobrawa Purchasing and Facilities Manager Dan Martin Engineering Manager		
APPROVED BY:	☒ Rom Sarno, Chief, Administrative Services ☒ Rod Posada, Chief, Engineering ☒ German Alvarez, Assistant General Manager ☒ Mark Watton, General Manager		
SUBJECT:	REQUEST AUTHORIZATION FOR THE GENERAL MANAGER TO DECLARE AND DISPOSE OF SURPLUS REAL ESTATE PROPERTY		

GENERAL MANAGER'S RECOMMENDATION:

That the Board declare the 2.41-acre parcel on Sweetwater Springs Blvd. (APN 505-230-51-00) as surplus and authorize the General Manager to dispose of the declared property in accordance with applicable statutes and laws in the best interest of the District.

COMMITTEE ACTION:

See "Attachment A".

PURPOSE:

To request that the Board declare real property as surplus to the District's needs and authorize the General Manager to dispose of the property.

ANALYSIS:

APN 505-230-51-00

During the September 4, 2013 Board meeting, a request to have the Board declare four (4) properties as surplus to the District's needs was presented. The Board voted to approve the recommendation with the exception of the 2.41-acre parcel located on Sweetwater Springs Blvd. and identified as APN 505-230-51-00.

At that time, the Board requested that the District contact adjoining property owners who have expressed an interest in acquiring the property. It was requested that the District inform them that it is considering declaring the property surplus and disposing of it in accordance with applicable laws. As a result, the District has been in telephone and e-mail contact with Mr. Dan Floit, owner of the Jackson Pointe Community. Mr. Floit indicates that he has no objection should the District declare the property surplus and that he has been in contact with Mr. Skip Flynn, and other members of the Lakeview HOA to discuss granting them an emergency access easement to their property should he be successful in acquiring it. The District has received an e-mail message from Mr. Floit indicating this information and to date, Mr. Flynn has not expressed any objections to the District's intentions.

FISCAL IMPACT: ☒ Joe Beachem, Chief Financial Officer

It is anticipated that the District will obtain the fair market value for the properties. The proceeds from the sale of each property will be credited to the funds that provided for their purchase.

Staff anticipates that the Purchasing and Facilities Outside Services budget will be exceeded by $22,500 to cover the cost of appraisal services. At the time of the budget preparation, the sale of these properties was not anticipated. Currently, Purchasing and Facilities' expenses have not exceeded anticipated expenses and it is expected that there will be sufficient funds available to offset the higher than budgeted appraisal costs.

STRATEGIC GOAL:

- Ensure financial health through formalized policies, prudent investing and efficient operations.
- Optimize District efficiencies.

LEGAL IMPACT:

None.

Attachments: Attachment A – Committee Action Report
Attachment B – Map of Subject Property

ATTACHMENT A

SUBJECT/PROJECT:	REQUEST AUTHORIZATION FOR THE GENERAL MANAGER TO DECLARE AND DISPOSE OF SURPLUS REAL ESTATE PROPERTY

COMMITTEE ACTION:

The Finance, Administration, and Communications Committee met on October 22, 2013 to review this item. The Committee supports presentation to the full Board for their consideration.

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.

Attachment B - Map 1

DEVELOPER: N/A

PROJECT#: N/A

APN: 505-230-51-00

AREA: 2.41 ACRES

PROPERTY LOCATION: On Sweetwater Springs Blvd near US Elevator Road, Spring Valley

OWNER: OTAY WATER DISTRICT

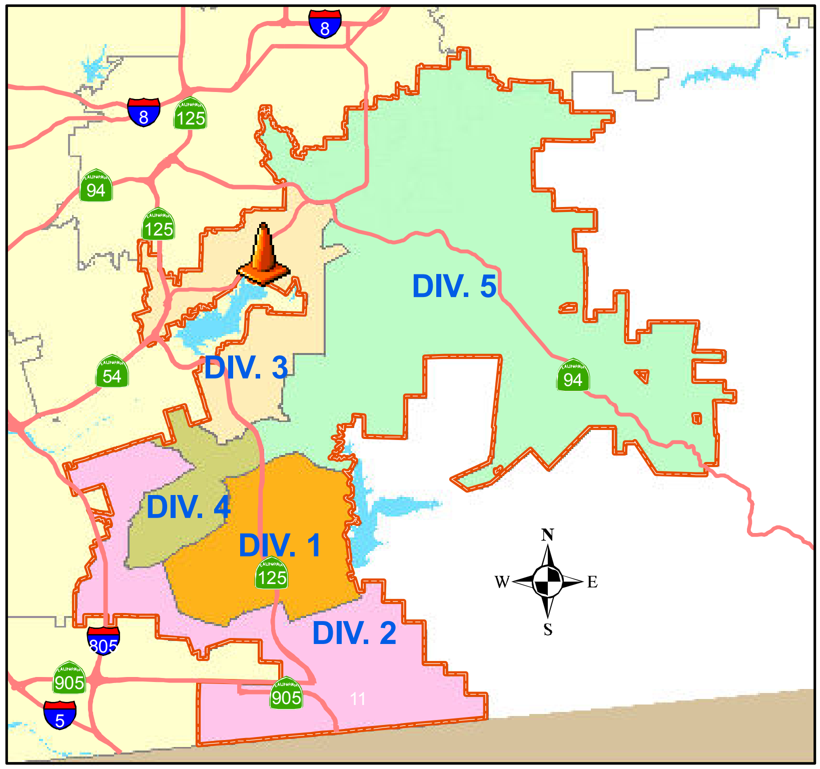
DIR: DIV. 3

WID: ID 20

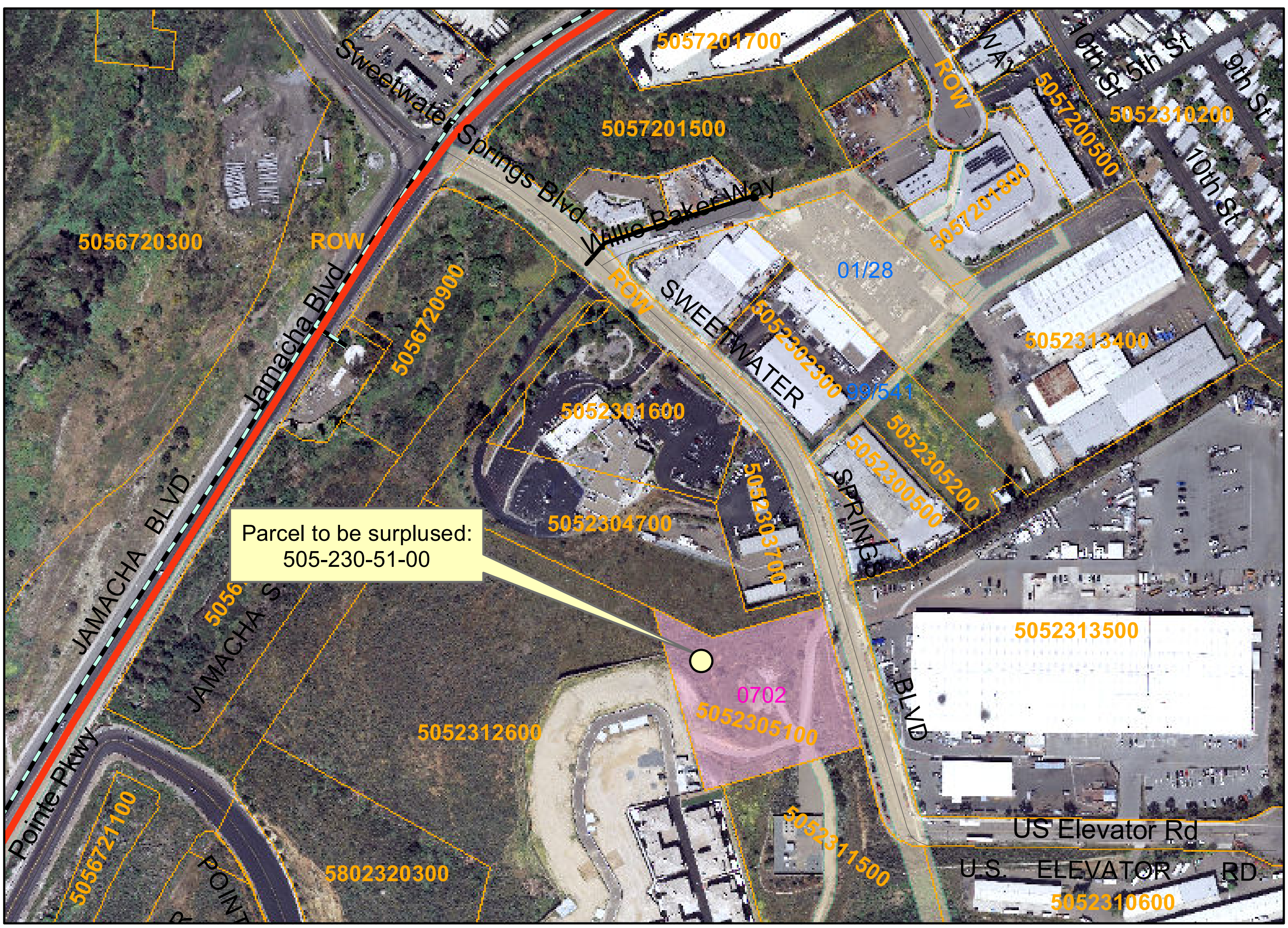
DATE: 6/26/2013

0 135 270 540 810 1,080 Feet

VICINITY MAP



LOCATION MAP



Dale Rd
Madrid Way
Campo Rd
94
CA-94 W
CA-94 E
Campo Rd
94
Calavo Dr
Bright Ct
Glen Dr
S Cordoba Ave
Norte Mesa Dr
Del Rio Rd
Diversion Dr
Cristobal Dr
Sierra Bonita St
Via de Oro
Casa Nueva St
View Crest Ct
Anoel Ct
Harmony Ln
Sweetwater Springs Blvd
Scenic Ter
San Carlos Dr
Don Pico Rd
Ybarra Rd
Avenida Roberta
Campo Rd
Campo Rd
Mandy Ln
S Bonita St
Conduit Ct
Loma Ln
Villa Bonita
Canyonview Ct
Highlands Blvd
Glenside St
La Cresta Rd
Gayla Ct
Calavo Dr
Alwood Ct
Daleridge Pl
Fieldcrest St
Austin Dr
Moorpark St
Trace Rd
Coach Dr
Cliffview Pl
Ivy St
S Barcelona St
Ledgeside St
Nuerto Ln
Calle Marinero
Doubletree Rd
Bar Bit Rd
Via Cordova
2nd St
Jamacha Blvd
4th St
1st St
6th St
9th St
Via Lampara
Fabled Waters Dr
Pointe Pkwy
Singer Ln
US Elevator Rd
Parcel to be surplussed:
505-230-51-00
La Mesa Ave
Lake Breeze Ct
Whitestone Rd
Limetree Ln
Elmdale Dr
Fairhill Dr
Jacoby Rd
Eubank Ln
Javelin Way
La Mesa Ave
San Bernardino Ave
Cuyamaca Ave
Sangamon Ave
Greenleaf Rd
Apple St
Felicia Ln
Avenue G
Avenue A
Ivanho St
Arapaho St
Reservoir Dr

AGENDA ITEM 7

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 6, 2013
SUBMITTED BY:	Mark Watton, General Manager	PROJECT:	DIV. NO. ALL
SUBJECT:	Approve Agreement for General Counsel Services		

GENERAL MANAGER'S RECOMMENDATION:

Approve an agreement with the law firm of Stutz, Artiano, Shinoff and Holtz, A Professional Corporation, for a term of two (2) years through December 31, 2015, to provide general counsel services to the District.

COMMITTEE ACTION:

Please see Attachment A.

PURPOSE:

To present for the Board's consideration an agreement with the law firm of Stutz, Artiano, Shinoff and Holtz, A Professional Corporation, for a term of two (2) years through December 31, 2015, to provide general counsel services to the District.

ANALYSIS:

Stutz, Artiano, Shinoff and Holtz, A Professional Corporation (SASH), has served as the District's special counsel since January 1, 2011. The District's current contract with SASH was for a two-year period and is set to expire at the end of calendar year 2013.

The District has been happy with the services SASH has provided and is recommending that the board approve the proposed agreement as per the terms indicated in the agreement (Attachment B). If approved, the agreement would provide for a two (2) year term expiring on December 31, 2015.

FISCAL IMPACT: ☒ Joe Beachem, Chief Financial Officer

The agreement allows for one hundred (100) hours or $20,000 per calendar month of basic retainer services as described in the attached agreement. Additional services, as described in Section 4.b of the agreement, and time in excess of the one hundred (100) hours will be compensated on an hourly basis based on the rates noted in the agreement.

LEGAL IMPACT:

None.

Attachments:
- Attachment A – Committee Actions
- Attachment B – Proposed Legal Services Agreement

ATTACHMENT A

SUBJECT/PROJECT:	

COMMITTEE ACTION:

The Finance, Administration and Communications Committee reviewed this item at a meeting held on October 22, 2013 and supported presentation to the full board for consideration.

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.

LEGAL SERVICES AGREEMENT

1. IDENTIFICATION OF PARTIES. This Agreement, executed in duplicate with each party receiving an executed original, is made between Stutz Artiano Shinoff & Holtz, A Professional Corporation, hereinafter referred to as "Law Firm" and Otay Water District, hereinafter referred to as "Client." This Agreement is entered into beginning the month of January, 2014, for legal services. The agreement is made for a term of two years up to and including December 31, 2015. The Client and Law Firm will hold an annual review in 2014 regarding expectations, performance, and other issues impacting the Client and Law Firm under this agreement.

2. LEGAL SERVICES TO BE PROVIDED. The legal services to be provided by Law Firm to Client are as follows:

Representation, counsel and consultation in connection with Client's general counsel needs; human resources, legal support including review of policies and procedures, contract review; preparation and participation in monthly Board meetings and special meetings ("Services").

Without limiting the generality of the foregoing, this Agreement shall govern so long as Client desires to retain the Law Firm in connection with Services.

3. RESPONSIBILITIES OF LAW FIRM AND CLIENT. Law Firm will perform the services called for under this Agreement, keep Client informed of progress and developments, and respond promptly to Client's inquiries and communications. Daniel R. Shinoff and Jeffery A. Morris are intended to be the Law Firm attorneys primarily responsible for the consultation and representation. Client will cooperate with the Law Firm in the representation set forth herein, and will timely make any payments required by this Agreement.

4. ATTORNEY'S FEES. Client will pay Law Firm for attorneys' fees for the consultation and legal services provided under this Agreement as follows:

A. <u>Basic Retainer</u>. Law Firm shall be compensated for the performance of basic retainer services pursuant to this Agreement in the amount of Twenty Thousand Dollars ($20,000) per calendar month commencing as of the effective date of this Agreement. Basic retainer services for the purposes of this Agreement shall be deemed to be the first one hundred (100) hours of Law Firm's legal services rendered each month.

B. <u>Additional Services</u>. Law Firm shall be compensated for additional services in accordance with the following:

1. As directed by the General Manager or Board President;

2. PERB hearings, writs of mandate, or other litigated matters not covered by insurance;

3. Other complex matters, employment, personnel matters, or special projects with the approval of the General Manager or Board President.

Additional services and time in excess of the one hundred (100) hours per calendar month spent by Law Firm's Attorneys, Law Firm shall be compensated on an hourly basis at $240.00 per hour for partners, $210.00 per hour for associates, and $95.00 per hour for paralegals. The Law Firm will charge in increments of one-tenth of an hour, rounded off for each particular activity to the nearest one-tenth of an hour. The minimum time charged for any particular activity will be one-tenth of an hour.

Law Firm will charge for all activities undertaken in providing consultation and legal services to Client under this Agreement, including, but not limited to, the following: time spent formulating and dispensing legal advice and opinions; negotiation; gathering relevant information; conferences; correspondence and legal documents (review and preparation); legal research; and telephone conversations.

Client acknowledges that Law Firm has made no promises about the total amount of attorneys' fees to be incurred by Client under this Agreement.

5. COSTS. Client will pay all "costs" in connection with Law Firm's representation of Client under this Agreement. Costs will be billed directly to Client unless, at the option of Law Firm, costs are advanced by Law Firm. Costs include, but are not limited to, long-distance telephone charges, messenger service fees, photocopying expenses, as well as any other items generally accepted as "costs."

6. STATEMENTS AND PAYMENTS. Law Firm will send Client monthly statements indicating attorneys' fees and costs incurred and their basis, any amounts applied from deposits, and any current balance owed. If no attorney's fees or costs are incurred for a particular month, or if they are minimal, the statement may be held and combined with that for the following month. Any balance will be paid in full within thirty (30) days after the statement is mailed.

7. MEDIATION CLAUSE. Client and Law Firm are agreeing to have any and all disputes (except where Client may request arbitration of a fee dispute by the State Bar) that arise out of, or relate to this Agreement, including but not limited to claims of negligence or malpractice arising out of or relating to the legal services provided by Law Firm to Client, go to mediation before the filing of any civil proceeding. Client, however, may request arbitration of a fee dispute by the State Bar or San Diego County Bar Association as provided by Business and Professions Code Section 6200, et seq.

8. ERRORS AND OMISSIONS INSURANCE. The Law Firm maintains errors and omissions insurance coverage applicable to the services to be rendered under this Agreement.

9. TERMINATION. The Client or the Law Firm may, at any time, with or without reason, terminate this Agreement upon thirty (30) days prior written notice to the other party. In the event of termination, the Law Firm shall be entitled to payment only for acceptable and allowable work performed under this Agreement through the date of termination.

THE FOREGOING IS AGREED TO BY:

DATED: ________________________ OTAY WATER DISTRICT

By: ____________________________________
Mark Watton
General Manager

DATED: ________________________ STUTZ ARTIANO SHINOFF & HOLTZ
A Professional Corporation

By: ____________________________________
Jeffery A. Morris, Esq.
Partner

AGENDA ITEM 8

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	November 6, 2013
		PROJECT:	DIV. NO. All
SUBMITTED BY:	Kevin Koeppen, Finance Manager		
APPROVED BY:	☒ Joseph R. Beachem, Chief Financial Officer ☒ German Alvarez, Assistant General Manager ☒ Mark Watton, General Manager		
SUBJECT:	Retiree Healthcare Benefits - Review of the Actuarial Report and Net Cost of the Enhancement of the Retiree Healthcare Benefits		

GENERAL MANAGER'S RECOMMENDATION:

This staff report is an informational item that provides findings to the Board of Directors regarding:

1. The latest actuarial valuation performed as of June 30, 2013.
2. The actuarial evaluation determining the net cost or savings of the Other Post Employment Benefit (OPEB) plan enhancement versus the increased employee contributions to PERS.

COMMITTEE ACTION:

See Attachment A.

PURPOSE:

Every two years the District is required to hire an Actuary to perform a study that determines the cost of the District's OPEB Plan. The District has received the 2013 Actuarial Report prepared by Bartel Associates, LLC. This staff report is an informational item that reviews the key findings of the Actuarial report. This study is what determines the District's Annual Required Contribution (ARC) which is reported in the District's financial statements. In addition to the typical information found in an actuarial study, Bartel Associates was asked to evaluate the status of the cost and benefit of the increased employee contributions to PERS and the enhancement of the OPEB benefits.

ANALYSIS:

Since the 2011 OPEB change, staff has reported to the Board on two occasions regarding the net savings status. In each report the savings exceeded the costs. Due to changes in the actuarial assumptions the net costs are now anticipated to exceed the projected benefit by $43,000 in FY 2014. The cost of the benefit enhancement is projected to be $937,000 while the savings from the increased employee PERS contributions is projected to be $894,000. The net cost to the District, projected by the Actuary, will increase slightly over the foreseeable future.

Using the new assumptions the unrepresented employees continue to have a positive net savings to the District of $7,000 a year. This savings is expected to grow slightly over time. The net savings of the plan change and contributions for the represented employees has moved to a slight negative of -$50,000. This cost is expected to grow slightly over time.

The Actuary has made a number of assumption changes that have increased the AAL (Actuarial Accrued Liability) and the ARC (Annual Required Contribution). The most significant changes are in medical costs and the mortality tables. These along with other changes have increased the ARC by $173,000 in FY 2014 from $1,266,000 to $1,439,000 and have increased the AAL by $2.2 million. These changes also have a negative effect on the current funding level of the Trust. However, another assumption change has an even greater positive effect on the future ARC and Trust funding levels.

Since the creation of the Trust the District has not only paid the ARC but has also paid the retiree medical premiums. Because of these payments the retiree medical premiums are not paid from the Trust resulting in an accelerated funding level. The prior actuarial study did not assume the continued payment of those premiums by the District. However, the District has continued to budget for these costs and in this actuarial study the assumption has been changed to reflect the budgeted and projected funding levels.

With all the assumption changes, the actuarial study shows the OPEB trust funding level increasing rapidly from the current 52% to 83% over the six-year budget plan, FY 2014 to FY 2019. The prior actuarial study anticipated the funding level to be only 73% by

FY 2019. This budgeted rate of funding has the added benefit of significantly reducing the District’s ARC payments over time.

Staff did not account for a decreasing ARC in the budgeting process. As a result of this and the general conservative budgeting of OPEB costs, the District’s rate modeling for OPEB funding is greater than the actuarially projected costs in all but the current fiscal year. In the current year, with the assumption changes the budgeted funding is approximately $69,000 lower than the projected cost. In the next fiscal year, FY 2015, the projected budget is expected to exceed the projected cost by $80,000. Staff will adjust down the future funding projections in the next budget process to match the newest actuarial projected costs. After all assumption and projection changes are factored into the actuarial calculations, the funding level of the OPEB Trust is expected to reach 100% by fiscal 2023.

FISCAL IMPACT: ☒ Joe Beachem, Chief Financial Officer

For FY14 the updated OPEB costs including the ARC and the retiree medical premiums exceeds the budgeted OPEB funding by $69,000. As the additional funding of the Trust is not required, the budgeted amount does not require an adjustment. Only the budgeted amount will be paid into the OPEB Trust.

STRATEGIC GOAL:

The District ensures its continued financial health through long-term financial planning.

LEGAL IMPACT:

N/A

Attachments:
- A – Committee Action
- B – Actuarial Valuation Report

ATTACHMENT A

SUBJECT/PROJECT:	Retiree Health Care Benefits - Review of the Actuarial Report and Net Cost of the Enhancement of the Retiree Healthcare Benefits

COMMITTEE ACTION:

This is an informational item.

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.

Attachment B

OTAY WATER DISTRICT
RETIREE HEALTHCARE PLAN

BARTEL ASSOCIATES, LLC

June 30, 2013 GASB 45 Actuarial Valuation
Preliminary Results

Bartel Associates, LLC
John E. Bartel, President
Joseph R. D'Onofrio, Assistant Vice President
Adam Zimmerer, Actuarial Analyst
Cathy Wandro, Assistant Vice President
Revised October 11, 2013

AGENDA

■ Eligibility	• Full-time employees who retire directly from District under CalPERS (age 50 and 5 years of CalPERS service or disability) ➢ Hired < 1/1/81 - Age 55 and 5 years of District service[1] ➢ Hired ≥ 1/1/81 & < 7/1/93 and General Manager - Age 55 and age plus District service ≥ 70[1] ➢ Hired ≥ 7/1/93 & < 1/1/13 - Age 55 and 20 years of District service (15 years for Unrepresented) ➢ Hired ≥ 1/1/13 - Age 55 & 20 years of District service • Directors ➢ Elected < 1/1/95 - Age 60 and 12 years of District service[2] ➢ Elected ≥ 1/1/95 - Not eligible • District service for eligibility is continuous service from last hire date • Medicare eligible retirees and spouses must enroll in Medicare
■ Medical Plans	• EPO, PPO, and HMO available before Medicare eligibility • Only PPO available after Medicare eligibility

[1] All full-time employees hired before 7/1/93 and continuously working for the District have 20 or more years of District service on 6/30/13. Two active employees were hired before 1/1/81 and 10 active employees were hired between 1/1/81 and 7/1/93.
[2] There are 2 retired Directors.

BENEFIT SUMMARY

■ Medical & Dental	• 100% of retiree premium for life • Retired < 12/29/03 - 100% spouse premium for life and 100% eligible dependent premium to age 19 • Retired ≥ 12/29/03 - 88% of spouse premium for life and 88% eligible dependent premium to age 19 • Retiree can pay eligible dependent premium after age 19 as required by law • Eligible Directors - 100% of family premium for life
■ Survivors Unrepresented Retired < 7/15/11 Represented Retired < 8/10/11 Directors Elected < 1/1/95	• Retired < 12/29/03 and Directors elected < 1/1/95 - 100% spouse premium and 100% eligible dependent premium to age 19 • Retired ≥ 12/29/03 - 88% of spouse premium and eligible dependent premium to age 19 • Spouse coverage after retiree death but not past spouse age 65 • Eligible dependent can pay full premium after age 19 as required by law • Survivor benefit available to actives eligible to retire

■ Survivors Unrepresented Retired ≥ 7/15/11 Represented Retired ≥ 8/10/11	• 88% of spouse premium for life and eligible dependent premium to age 19 • Eligible dependent can pay full premium after age 19 as required by law • Survivor benefit available to actives eligible to retire

■ Disability & Hardship	• Disability - Age 50 and10 years of District service • Hardship ➢ Hired < 1/1/13 - Hardship as determined by the District and 20 years of District service (15 years for Unrepresented) ➢ Hired ≥ 1/1/13 - Hardship as determined by the District and 20 years of District service • Early retirement adjustment to benefit: Age / Percent 50 / 70% 51 / 76% 52 / 82% 53 / 88% 54 / 94% ≥55 / 100%
■ Life Insurance	• Retired < 12/29/03 - $3,000 for retiree to age 70 • Retired < 12/29/03 & hired < 1/1/81 - $1,000 for spouse to retiree age 70 • Directors not eligible

BENEFIT SUMMARY

■ District Pay-As-You-Go Cost ('000s)	Fiscal Year	Cash Subsidy PayGo	Implied Subsidy PayGo	CERBT PayGo	Total PayGo	CAFR PayGo
	2012/13	$809	$86	$0	$895	n/a
	2011/12	750	91	0	841	$841
	2010/11	654	99	0	753	753
■ District Contributions[3] ('000s)	Fiscal Year	Cash Subsidy PayGo	Implied Subsidy PayGo	CERBT Funding	Total Contrib	ARC
	2012/13	$809	$86	$1,287	$2,182	$1,287
	2011/12	750	91	1,304	2,145	1,304
	2010/11	654	99	289	1,042	289

[3] District's current funding policy is to prefund full ARC with CERBT and additionally pay benefit payments as due from District assets.

DATA SUMMARY

Participants

Valuation Date	6/30/07	6/30/09	6/30/11	6/30/13
■ **Actives**				
• Count	164	160	150	137
• Average Age	44.3	44.8	46.5	46.5
• Average District Service	7.5	8.4	10.2	9.5
• Average Pay	$68,873	$76,634	$80,784	$87,366
• Total Payroll (000's)	10,951	11,878	12,118	11,969
■ **Waived Medical Coverage**	10	10	9	8
■ **Total Participating**	154	150	141	129
■ **Retirees**				
• Count	67	69	69	80
• Average Age	67.5	67.7	68.7	68.5
• Ave Retirement Age	59.5	59.0	58.5	58.3

Active Participants

Active Participants	6/30/11	6/30/13
■ **Unrepresented**		
• Executive	8	7
• Confidential	10	8
• Confidential Management	3	3
• Manager	9	9
• Supervisor	12	9
• Total Unrepresented	42	36
■ **Represented**		
• Administrative	54	50
• Field	54	51
• Total Represented	108	101
■ **Total Actives**	150	137

Active Participants

Valuation Date	June 30, 2011			June 30, 2013		
Employee Group	**Unrep**	**Rep**	**Total**	**Unrep**	**Rep**	**Total**
■ **Actives**						
• Count	42	108	150	36	101	137
• Average Age	49.0	45.5	46.5	48.0	45.9	46.5
• Average Service	12.6	8.7	9.8	11.6	8.7	9.5
• Average Pay	$114,543	$67,655	$80,784	$123,826	$74,371	$87,366
• Total Payroll (000's)	4,811	7,307	12,118	4,458	7,511	11,969
■ **Waived Med Coverage**	2	7	9	1	7	8
■ **Total Participating**	40	101	141	35	94	129

Market Value of Plan Assets

(Amounts in 000's)

Market Value of Assets	2008/09	2009/10	2010/11	2011/12	2012/13
■ Market Value at Beginning of Year	$5,611	$5,228	$6,372	$8,258	$9,595
• CERBT Contributions	873	345	289	1,304	1,287
• District PayGo Contributions[4]	608	598	654	750	809
• Investment Earnings	(1,252)	805	1,606	43	1,135
• District Benefit Payments	(608)	(598)	(654)	(750)	(809)
• Administrative Expenses	(4)	(6)	(9)	(10)	(16)
■ Market Value at End of Year	5,228	6,372	8,258	9,595	12,001

■ Market Value Est Net Return[5]	(21.2%)	15.1%	24.5%	0.38%	11.2%
■ CERBT Net Annual Return	(23.0%)	15.9%	25.0%	0.15%	11.8%

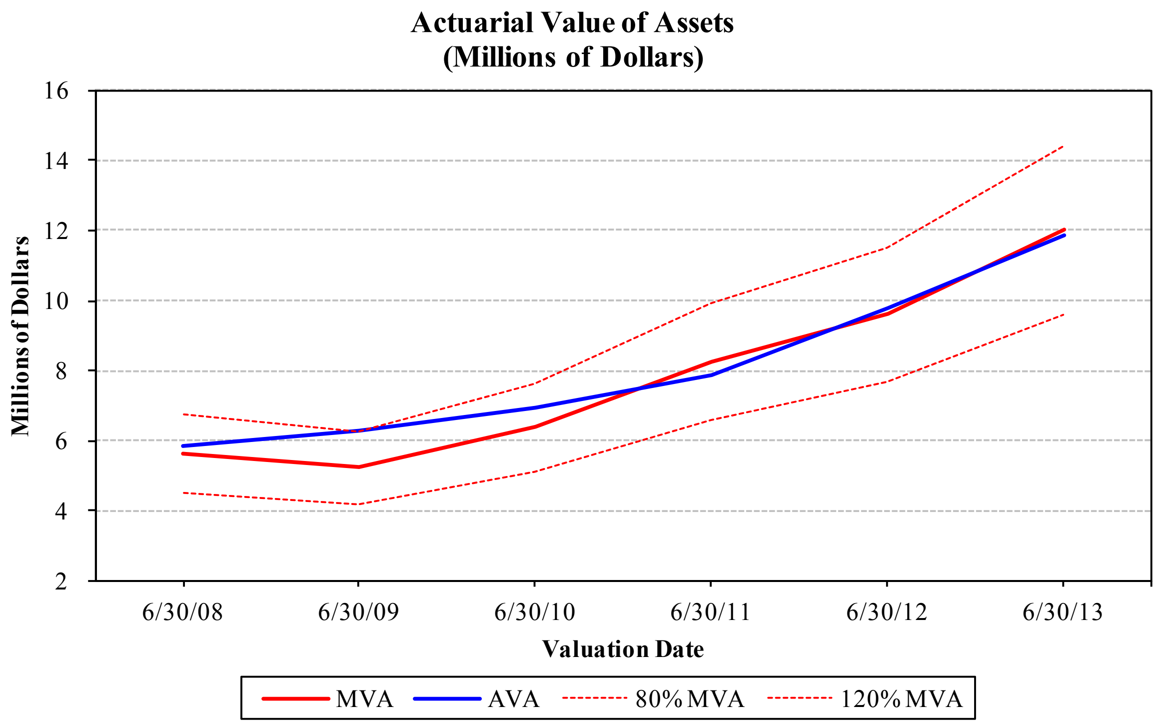
4 Cash benefit payments made directly from District assets. Excludes implied subsidy payments.
5 Includes the impact of cash flow timing.

Actuarial Value of Plan Assets

(Amounts in 000's)

Actuarial Value of Assets	2008/09	2009/10	2010/11	2011/12	2012/13
■ Actuarial Value at Beginning of Year	$5,861	$6,273	$6,962	$7,893	$9,762
• Cash Contributions	1,481	943	943	2,054	2,096
• Expected Net Earnings	478	491	550	608	739
• Benefit Payments	(608)	(598)	(654)	(750)	(809)
■ Expected AVA at End of Year	7,212	7,109	7,801	9,804	11,788
• Market Value at End of Year	5,228	6,372	8,258	9,595	12,001
• MVA - Expected AVA	(1,984)	(737)	456	(209)	212
• 1/5 of (MVA - Expected AVA)	(397)	(147)	91	(42)	42
• Preliminary AVA	6,815	6,962	7,893	9,762	11,831
• Minimum AVA (80% of MVA)	4,182	5,098	6,606	7,676	9,601
• Maximum AVA (120% of MVA)	6,273	7,647	9,909	11,514	14,401
■ Actuarial Value at End of Year	6,273	6,962	7,893	9,762	11,831

■ Actuarial Value Est Net Return	(7.5%)	5.4%	9.0%	7.0%	7.9%
■ AVA/MVA	120%	109%	96%	102%	99%



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ASSUMPTIONS AND METHODS HIGHLIGHTS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Valuation Date	• June 30, 2011 • 2011/12 & 2012/13 ARCs	• June 30, 2013 • 2013/14 & 2014/15 ARCs
■ Discount Rate	• 7.25% - Full ARC funding with CERBT #1 • Includes 0.36% margin for adverse deviation • 7.61% is expected long-term return	• Same

ASSUMPTIONS AND METHODS HIGHLIGHTS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Funding Policy	• Fund full ARC with CERBT Fund #1 • ARC plus benefit payments for 2011/12	• Prefund full ARC with CERBT Fund #1 plus budgeted benefit payments from District assets • Portion of employees' CalPERS member contribution offsets District OPEB cost: ➢ Hired < 1/1/13: - Represented - .75% of pay - Unrepresented - None ➢ Hired ≥ 1/1/13: - Represented - 8.75% of pay less CalPERS member contribution - Unrepresented - 8% of pay less CalPERS member contribution ➢ Not reflected in valuation

ASSUMPTIONS AND METHODS HIGHLIGHTS

Assumption	June 30, 2011 Valuation			June 30, 2013 Valuation		
■ Medical Trend		Increase from Prior Year			Increase from Prior Year	
	Calendar Year	Non-Medicare	Medicare	Calendar Year	Non-Medicare	Medicare
		All Plans			All Plans	
	2011	Premiums		2011	n/a	
	2012	9.5%	10.0%	2012	n/a	
	2013	9.0%	9.4%	2013	Premiums	
	2014	8.5%	8.9%	2014	Premiums	
	2015	8.0%	8.3%	2015	8.0%	8.3%
	2016	7.5%	7.8%	2016	7.5%	7.8%
	2017	7.0%	7.2%	2017	7.0%	7.2%
	2018	6.5%	6.7%	2018	6.5%	6.7%
	2019	6.0%	6.1%	2019	6.0%	6.1%
	2020	5.5%	5.6%	2020	5.5%	5.6%
	2021+	5.0%	5.0%	2021+	5.0%	5.0%
	• Calendar year premiums used for following fiscal year			• Calendar year premiums prorated for fiscal year		

ASSUMPTIONS AND METHODS HIGHLIGHTS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Mortality, Termination, Disability	• CalPERS 1997-2007 Experience Study	• CalPERS 1997-2007 Experience Study • Mortality improvement projection Scale AA. Sample annual longevity increases:

Age	Male	Female
50	1.8%	1.7%
60	1.6%	0.5%
70	1.5%	0.5%
80	1.0%	0.7%

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ District Service for Retirement	• Hired < 1/1/81 - 5 years of District service • Hired ≥ 1/1/81 & < 7/1/93 and General Manager - Age plus District service ≥ 70 • Hired ≥ 7/1/93: ➢ Unrepresented employees - 15 years of District service ➢ Represented employees - 18 years of District	• Hired < 1/1/81 - 5 years of District service • Hired ≥ 1/1/81 & < 7/1/93 and General Manager - Age plus District service ≥ 70 • Hired ≥ 7/1/93: ➢ Unrepresented employees: - Hired < 1/1/13 - 15 years of District service - Hired ≥ 1/1/13 - 20 years of District service ➢ Represented employees: - 20 years of District service ➢ 5 years of District service if employee does not have 15 or 20 years of service at age 65

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Service Retirement	• CalPERS 1997-2007 Experience Study CalPERS Benefit 2.7%@55 CalPERS Hire Age 35 Expected Retire Age 58.1	• CalPERS 1997-2007 Experience Study[6] CalPERS / Misc / ERA CalPERS Hire Age 35 Hire < 1/1/13 2.7%@55 58.1 Hire ≥ 1/1/13 ➢ Classic Member 2.7%@55 58.1 ➢ New Member 2.0%@62 60.9
■ Hardship Retirements	• 5% of employees eligible to retire at ages 50 through 54	• Same
■ Participation at Retirement	• Currently covered and waived ➢ Medical - 100% ➢ Dental - 80%	• Currently covered and waived ➢ Medical - 100% ➢ Dental - 100%

[6] Expected Retirement Ages (ERA) for new member formulas based on CalPERS retirement assumptions for its AB 340 (PEPRA) actuarial cost analysis.

ASSUMPTIONS AND METHODS HIGHLIGHTS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Medical Plan at Retirement	• Currently covered: ➢ Current plan election until Medicare eligible ➢ PPO after Medicare eligible • Waived actives - PPO • Waived retirees - n/a	• Same
■ Preretirement Survivor Benefit	• Not included	• Included
■ Cost Method	• Entry Age Normal -Normal Cost is a level percentage of payroll	• Same

ASSUMPTIONS AND METHODS HIGHLIGHTS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Actuarial Value of Assets	• Investment gains and losses spread over a 5-year rolling period • Not less than 80% nor more than 120% of market value	• Same
■ Amortization Method	• Level percentage of payroll • 26-year fixed (closed) period for 2011/12 ARC	• Level percentage of payroll • 24-year fixed (closed) period for 2012/13 ARC

Actuarial Obligations

Actuarial Obligations (Amounts in 000's)	6/30/11 Valuation Actual 6/30/11	Projected 6/30/13	6/30/13 Valuation Actual 6/30/13	Projected 6/30/14
■ **Discount Rate**	7.25%	7.25%	7.25%	7.25%
■ **Present Value of Benefits**				
• Actives	$15,083	n/a	$16,603	n/a
• Retirees	9,100	n/a	13,059	n/a
• Total	24,183	26,154	29,662	30,730
■ **Actuarial Accrued Liability**				
• Actives	9,189	n/a	9,832	n/a
• Retirees	9,100	n/a	13,059	n/a
• Total	18,289	20,725	22,891	24,168
■ **Actuarial Value of Assets**	7,893	11,764	11,831	14,093
■ **Unfunded Actuarial Accrued Liability**	10,396	8,961	11,060	10,075
■ **AVA Funded Percent**	43%	57%	52%	58%
■ **Normal Cost**	642	684	699	722
■ **Pay-As-You-Go Cost**	756	868	1,045	1,076

Estimated Actuarial Gains & Losses

(Amounts in 000's)

Actuarial Gains & Losses	NC%	AAL
■ **6/30/11 Actuarial Accrued Liability**	5.2%	$18,289
■ **6/30/13 Expected Actuarial Accrued Liability**	5.2%	20,725
■ **Experience Losses (Gains)**		
• Actual versus expected premiums	(0.2%)	(750)
• Demographic & other	0.0%	142
■ **Assumption Changes**		
• Projected mortality improvement	0.3%	912
• Surviving spouse coverage for new retirees	0.0%	302
• Fiscal year medical trend	0.3%	1,274
• Retirement rates	0.2%	142
• Dental Participation	0.0%	86
• Preretirement survivor benefit	0.0%	58
■ **Total Changes**	0.6%	2,166
■ **6/30/13 Actuarial Accrued Liability**	5.8%	22,891

Annual Required Contribution (ARC)

(Amounts in 000's)

Annual Required Contribution	6/30/11 Valuation 2011/12	6/30/11 Valuation 2012/13	6/30/13 Valuation 2013/14	6/30/13 Valuation 2014/15
■ **Discount Rate**	7.25%	7.25%	7.25%	7.25%
■ **ARC - $**				
• Normal Cost	$ 642	$ 662	$ 699	$ 722
• UAAL Amortization	662	625	739	691
• Total ARC	1,304	1,287	1,439	1,413
■ **Projected Payroll**	12,429	12,833	11,969	12,358
■ **ARC - %**				
• Normal Cost	5.2%	5.2%	5.8%	5.8%
• UAAL Amortization	5.3%	4.9%	6.2%	5.6%
• Total ARC %	10.5%	10.0%	12.0%	11.4%
■ **UAAL Amortization Years**	26	25	24	23

Benefit Payment Projection

(Amounts in 000's)

Fiscal Year	Cash Subsidy Current Actives	Cash Subsidy Current Retirees	Cash Subsidy Total Cash	Implied Subsidy	Total Payment
2013/14	$ 5	$ 923	$ 929	$ 116	$ 1,045
2014/15	19	939	958	118	1,076
2015/16	37	969	1,006	123	1,129
2016/17	60	998	1,058	130	1,188
2017/18	89	1,015	1,104	125	1,229
2018/19	136	1,028	1,165	125	1,290
2019/20	195	1,029	1,225	124	1,349
2020/21	259	1,032	1,291	122	1,413
2021/22	338	1,018	1,356	120	1,476
2022/23	433	1,009	1,442	137	1,579

Actuarial Obligations

June 30, 2013 - 7.25% Discount Rate

(Amounts in 000's)

Actuarial Obligations	Cash Subsidy	Implied Subsidy	Total
■ **Present Value of Benefits**			
• Actives	$15,069	$1,534	$16,603
• Retirees	12,404	655	13,059
• Total	27,473	2,189	29,662
■ **Actuarial Accrued Liability**			
• Actives	8,912	919	9,832
• Retirees	12,404	655	13,059
• Total	21,316	1,574	22,891
■ **Actuarial Value of Assets**[7]	11,017	813	11,831
■ **Unfunded Actuarial Accrued Liability**	10,299	761	11,060
■ **Normal Cost**	637	62	699
■ **Pay-As-You-Go Cost**	929	116	1,045

[7] Allocated in proportion to the Actuarial Accrued Liability for this illustration.

Annual Required Contribution (ARC)

2013/14 Fiscal Year - 7.25% Discount Rate

(Amounts in 000's)

Annual Required Contribution	Cash Subsidy	Implied Subsidy	Total
■ **ARC - $**			
• Normal Cost	$ 637	$ 62	$ 699
• UAAL Amortization	688	51	739
• Total ARC	1,326	113	1,439
■ **Projected Payroll**	11,969	11,969	11,969
■ **ARC - %**			
• Normal Cost	5.3%	0.5%	5.8%
• UAAL Amortization	5.8%	0.4%	6.2%
• Total ARC	11.1%	0.9%	12.0%

Actuarial Obligations

June 30, 2013 - 7.25% Discount Rate

(Amounts in 000's)

Actuarial Obligations	Unrepresented	Represented	Total
■ **PVB**			
• Actives	$5,576	$11,028	$16,603
• Retirees	n/a	n/a	13,059
• Total	n/a	n/a	29,662
■ **AAL**			
• Actives	3,764	6,068	9,832
• Retirees	n/a	n/a	13,059
• Total	n/a	n/a	22,891
■ **AVA**	n/a	n/a	11,831
■ **UAAL**	n/a	n/a	11,060
■ **Normal Cost**	220	479	699
■ **PayGo Cost**	n/a	n/a	1,045

Annual Required Contribution (ARC)

2013/14 Fiscal Year - 7.25% Discount Rate

(Amounts in 000's)

Annual Required Contribution	Unrepresented	Represented	Total
■ **ARC - $**			
• Normal Cost	$ 220	$ 479	$ 699
• UAAL Amortization	n/a	n/a	739
• ARC	n/a	n/a	1,439
■ **Projected Payroll**	4,458	7,511	11,969
■ **ARC - %**			
• Normal Cost	4.9%	6.4%	5.8%
• UAAL Amortization	n/a	n/a	6.2%
• ARC	n/a	n/a	12.0%

Estimated Net Obligation (NOO)

Estimated Net OPEB Obligation (Asset) (Amounts in 000's)	CAFR 2011/12	Estimate 2012/13	Estimate 2013/14	Estimate 2014/15
■ **Discount Rate**	7.25%	7.25%	7.25%	7.25%
■ **NOO (Asset) at Beginning of Year**	$(7,416)	$(8,322)	$ (9,277)	$(10,307)
■ **Annual OPEB Cost**				
• Annual Required Contribution	1,304	1,287	1,439	1,413
• Interest on NOO	(538)	(603)	(673)	(747)
• NOO Adjustment	473	543	620	707
• Annual OPEB Cost	1,239	1,227	1,386	1,374
■ **Contributions**[8]				
• Benefit Payments Outside of Trust	(750)	(809)	(861)	(958)
• Implied Subsidy Benefit Payments	(91)	(86)	(116)	(118)
• Trust Funding	(1,304)	(1,287)	(1,439)	(1,413)
• Total Contributions	(2,145)	(2,182)	(2,415)	(2,489)
■ **NOO (Asset) at End of Year**	(8,322)	(9,277)	(10,307)	(11,422)
■ **NOO Amortization Years**	26	25	24	23
■ **NOO Amortization Factor**	15.69	15.33	14.96	14.57

[8] Estimated contributions for years after 2011/12, including PEMHCA administration expenses. Estimated items other than the ARC must be revised when actual contributions are known.

Full ARC Funding Projection - 7.25% Discount Rate

(Amounts in 000's)

Fiscal Year End	Begin Year NOO	ARC	AOC	District Contribution[9] Dist Pmts	Trust Funding	Cash Pmts	IS Pmts	Total Contr	BOY UAAL	BOY AVA Fund%
2014	$(9,277)	$1,439	$1,386	$861	$1,439	$2,299	$116	$2,415	$11,060	52%
2015	(10,307)	1,413	1,374	958	1,413	2,371	118	2,489	10,075	58%
2016	(11,422)	1,379	1,357	1,006	1,379	2,385	123	2,508	8,968	65%
2017	(12,573)	1,336	1,339	1,058	1,336	2,394	130	2,524	7,789	71%
2018	(13,758)	1,286	1,322	1,104	1,286	2,390	125	2,515	6,534	77%
2019	(14,951)	1,227	1,306	1,165	1,227	2,392	125	2,517	5,224	83%
2020	(16,162)	1,158	1,290	1,225	1,158	2,383	124	2,507	3,844	88%
2021	(17,378)	1,076	1,277	1,291	1,076	2,367	122	2,489	2,401	93%
2022	(18,591)	982	1,266	1,356	982	2,338	120	2,458	897	97%
2023	(19,782)	872	1,259	1,442	872	2,314	137	2,451	(656)	102%

[9] Assumes District contributes full ARC to trust and additionally pays cash and implied subsidy benefit payments from District assets, except for 2013/14 when ARC plus expected cash benefit payments exceed District budgeted cash amount. For 2013/14, assumes District pays a portion of cash benefit payments from trust in order to not exceed budgeted cash amount.

2011 Benefit Changes - Effect on 2013/14 Normal Cost - 7.25% Discount Rate

(Amounts in 000's)

■ Employee Group	Unrepresented			Represented			Grand Total
■ Membership Date	< 2013	≥ 2013	Total	< 2013	≥ 2013	Total	
■ **CalPERS Member Contrib**							
• Current Member Contrib %[10]	8.00%	8.00%		8.75%	8.75%		
• Prior Member Contrib %	1.00%	1.00%		1.00%	1.00%		
• Add'l Member Contrib %	7.00%	7.00%		7.75%	7.75%		
• Projected Payroll 2013/14	$4,458	$0	$4,458	$7,238	$273	$7,511	$11,969
• Add'l Member Contrib $	312	0	312	561	21	582	894
• Add'l Member Contrib %			7.00%			7.75%	7.47%
■ **OPEB Normal Cost**							
• Current Plan NC $			220			479	699
• Prior Plan NC $			30			53	83
• Additional NC $			190			426	616
• Projected Payroll 2013/14			4,458			7,511	11,969
• Additional NC %			4.27%			5.67%	5.15%
■ **CalPERS - OPEB $**			122			156	278
■ **CalPERS - OPEB %**			2.73%			2.08%	2.32%

[10] CalPERS Normal cost for new members for 2013 is 6.75% of pay.

2011 Plan Change Results - Employee Group Allocation Methodology

- Estimated allocation of 2013/14 ARC to unrepresented and represented employee groups:
  - Employee group information for retirees not available
  - 6/30/13 retiree actuarial accrued liability allocated in proportion to 6/30/13 number of unrepresented and represented active employees
  - 6/30/13 actuarial value of assets allocated in proportion to 6/30/13 allocated total actuarial accrued liability
  - Allocated unfunded actuarial accrued liability used to allocate amortization component of 2013/14 ARC
- Estimated plan change assets:
  - 2011/12 and 2012/13 ARCs allocated to employee groups in proportion to 2013/14 allocated ARC
  - 2011/12 and 2012/13 allocated ARCs accumulated with estimated actual market value return
  - Estimated plan change assets determined on a market value basis

Actuarial Obligations for 2011 Plan Change
June 30, 2013 - 7.25% Discount Rate
(Amounts in 000's)

Actuarial Obligations	Prior Plan	New Plan Change	Current Plan
■ **Actuarial Accrued Liability**			
• Actives	$ 2,925	$ 6,907	$ 9,832
• Retirees	13,059	0	13,059
• Total	15,984	6,907	22,891
■ **Actuarial Value of Assets**	9,722	2,109	11,831
■ **Unfunded Actuarial Accrued Liability**	6,262	4,798	11,060
■ **ARC 2013/14**			
• Normal Cost	83	616	699
• UAAL Amortization	419	321	739
• Total ARC	502	937	1,439

Projection of CalPERS Savings vs OPEB ARC Increase
24-Year Amortization of UAAL - 7.25% Discount Rate
(Amounts in 000's)

Fiscal Year End	CalPERS Contribution Savings[11]	OPEB ARC Increase	Annual Savings	Cumulative Savings	Present Value Cumulative Savings
2014	$ 894	$ 937	$ (43)	$ (43)	$ (41)
2019	1,049	1,099	(50)	(277)	(225)
2024	1,231	1,290	(59)	(552)	(377)
2029	1,445	1,513	(69)	(875)	(502)
2034	1,695	1,776	(81)	(1,254)	(606)
2039	1,989	1,370	619	(295)	(448)
2044	2,334	1,608	726	3,114	16
2049	2,739	1,887	852	7,115	400
2054	3,214	2,214	1,000	11,809	717
2059	3,771	2,598	1,173	17,316	979
2064	4,425	3,048	1,377	23,779	1,196

[11] Additional 7.00% of pay CalPERS member contribution for unrepresented employees and additional 7.75% of pay CalPERS member contribution for represented employees. Aggregate payroll assumed to increase 3.25% per year.

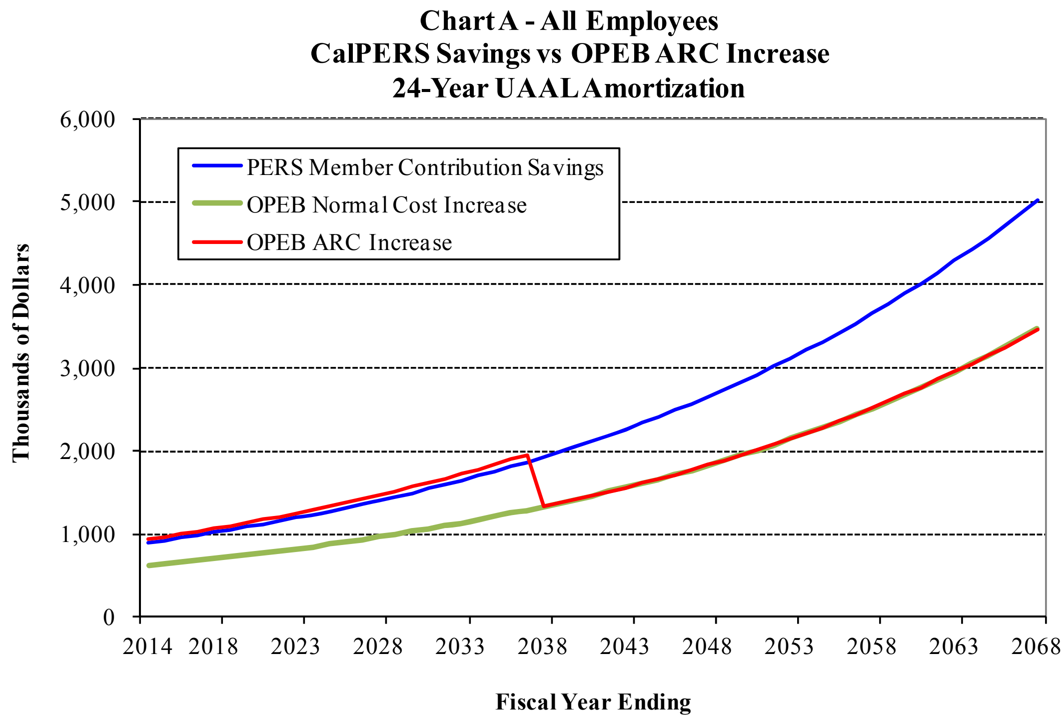


Chart A - All Employees
CalPERS Savings vs OPEB ARC Increase
24-Year UAAL Amortization
PERS Member Contribution Savings
OPEB Normal Cost Increase
OPEB ARC Increase
Thousands of Dollars
6,000
5,000
4,000
3,000
2,000
1,000
0
2014
2018
2023
2028
2033
2038
2043
2048
2053
2058
2063
2068
Fiscal Year Ending

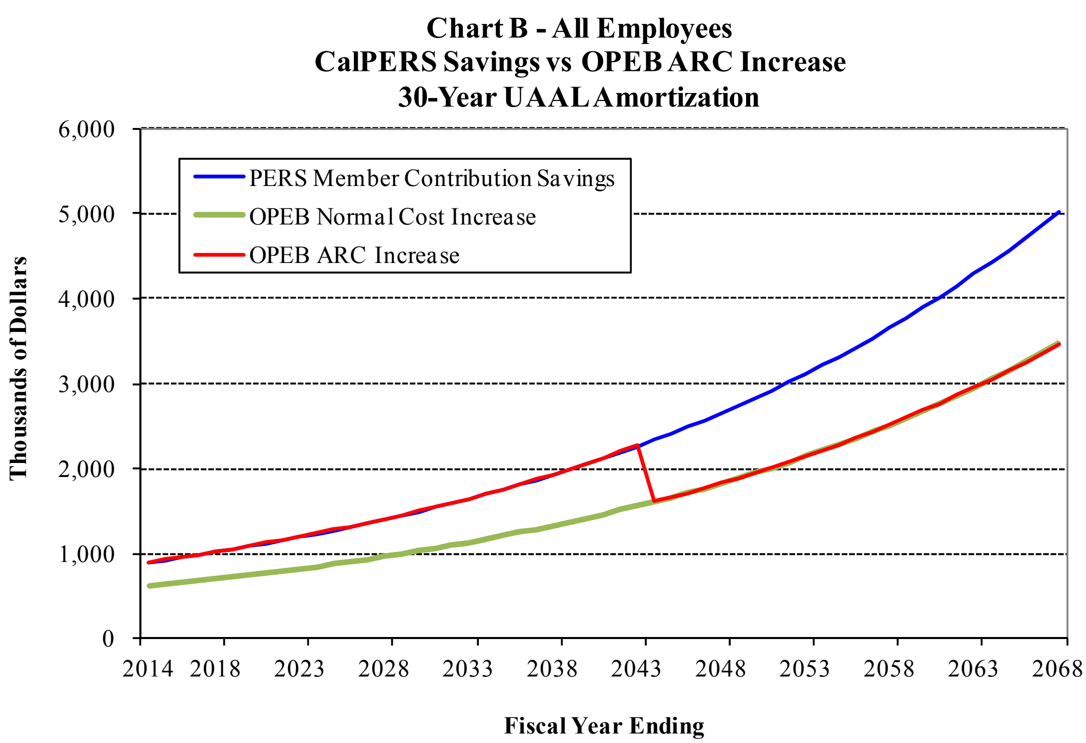


Chart B - All Employees
CalPERS Savings vs OPEB ARC Increase
30-Year UAAL Amortization
PERS Member Contribution Savings
OPEB Normal Cost Increase
OPEB ARC Increase
Thousands of Dollars
6,000
5,000
4,000
3,000
2,000
1,000
0
2014
2018
2023
2028
2033
2038
2043
2048
2053
2058
2063
2068
Fiscal Year Ending

Actuarial Obligations - Unrepresented

June 30, 2013 - 7.25% Discount Rate

(Amounts in 000's)

Actuarial Obligations	Prior Plan	New Plan Change	Current Plan
■ **Actuarial Accrued Liability**			
• Actives	$ 1,385	$ 2,379	$ 3,764
• Retirees	3,432	0	3,432
• Total	4,817	2,379	7,196
■ **Actuarial Value of Assets**	3,056	663	3,719
■ **Unfunded Actuarial Accrued Liability**	1,761	1,716	3,477
■ **ARC 2013/14**			
• Normal Cost	30	190	220
• UAAL Amortization	118	115	232
• Total ARC	148	305	452

Projection of CalPERS Savings vs OPEB ARC Increase - Unrepresented

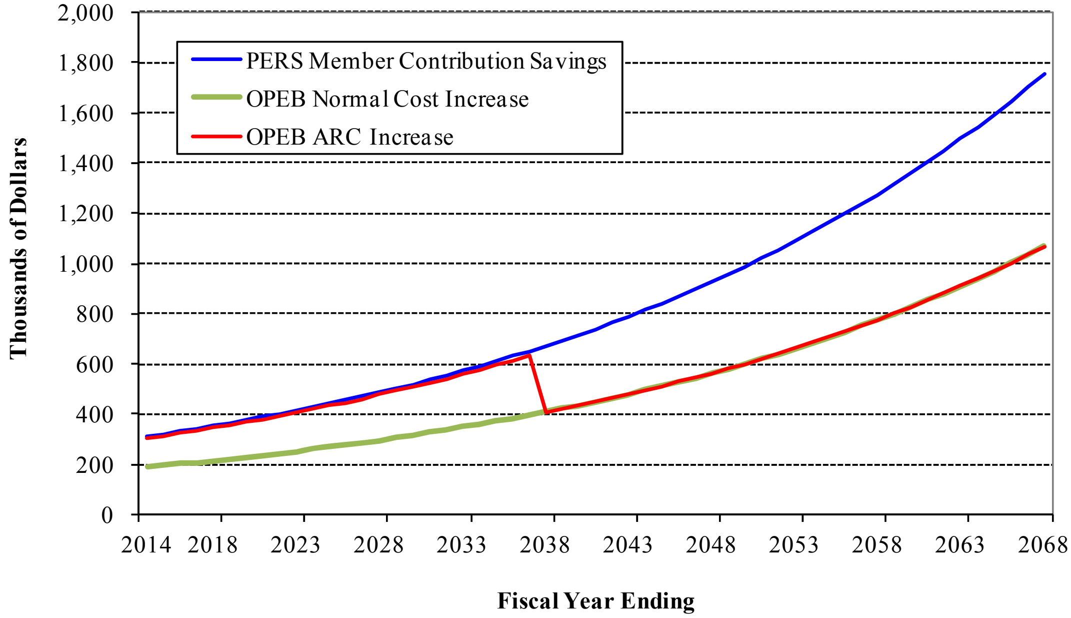
24-Year Amortization of UAAL - 7.25% Discount Rate

(Amounts in 000's)

Fiscal Year End	CalPERS Contribution Savings[12]	OPEB ARC Increase	Annual Savings	Cumulative Savings	Present Value Cumulative Savings
2014	$ 312	$ 305	$ 7	$ 7	$ 7
2019	366	358	9	48	39
2024	430	420	10	96	65
2029	504	492	12	152	87
2034	592	578	14	217	105
2039	694	423	272	796	207
2044	815	496	319	2,292	411
2049	956	582	374	4,048	579
2054	1,122	683	439	6,107	718
2059	1,316	801	515	8,524	833
2064	1,544	940	604	11,360	929

[12] Additional 7.00% of pay CalPERS member contribution for unrepresented employees. Aggregate payroll assumed to increase 3.25% per year.

Chart A - Unrepresented Employees
CalPERS Savings vs OPEB ARC Increase
24-Year UAAL Amortization



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Actuarial Obligations - Represented

June 30, 2013 - 7.25% Discount Rate

(Amounts in 000's)

Actuarial Obligations	Prior Plan	New Plan Change	Current Plan
■ **Actuarial Accrued Liability**			
• Actives	$ 1,540	$ 4,528	$ 6,068
• Retirees	9,627	0	9,627
• Total	11,167	4,528	15,695
■ **Actuarial Value of Assets**	6,666	1,446	8,112
■ **Unfunded Actuarial Accrued Liability**	4,501	3,082	7,583
■ **ARC 2013/14**			
• Normal Cost	53	426	479
• UAAL Amortization	301	206	507
• Total ARC	354	632	986

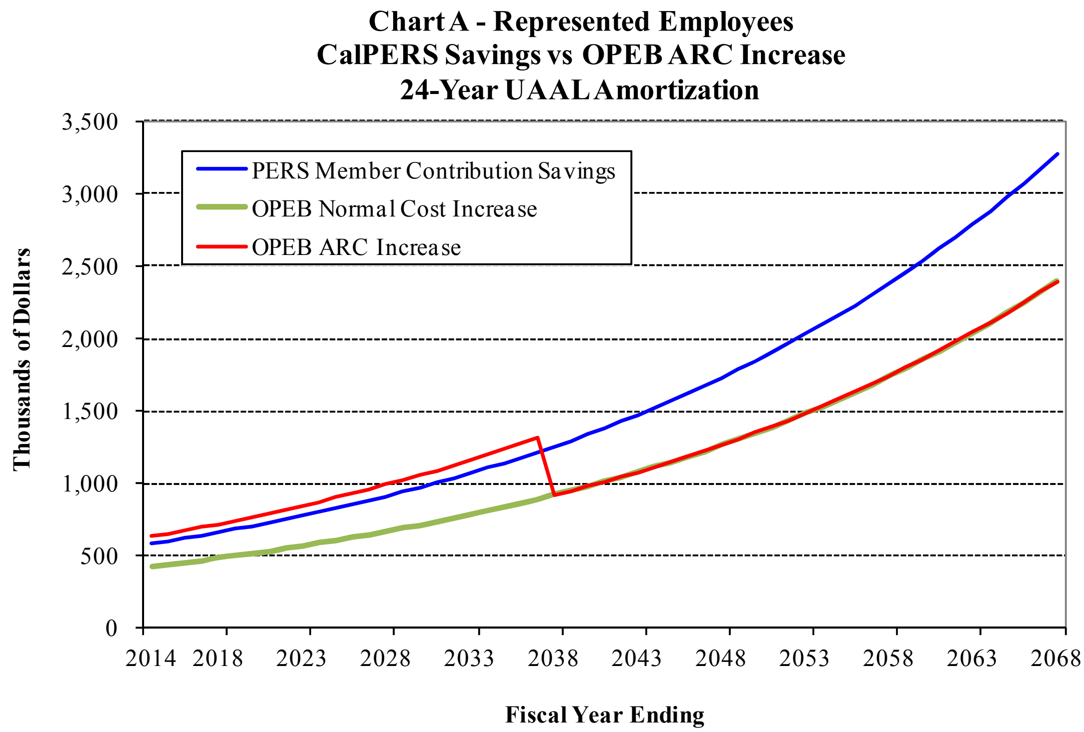
Projection of CalPERS Savings vs OPEB ARC Increase - Represented

24-Year Amortization of UAAL - 7.25% Discount Rate

(Amounts in 000's)

Fiscal Year End	CalPERS Contribution Savings[13]	OPEB ARC Increase	Annual Savings	Cumulative Savings	Present Value Cumulative Savings
2014	$ 582	$ 632	$ (50)	$ (50)	$ (48)
2019	683	742	(59)	(325)	(264)
2024	801	870	(69)	(648)	(442)
2029	940	1,021	(81)	(1,027)	(589)
2034	1,104	1,198	(95)	(1,472)	(711)
2039	1,295	948	347	(1,091)	(655)
2044	1,520	1,112	407	822	(395)
2049	1,783	1,305	478	3,067	(179)
2054	2,092	1,531	561	5,701	(1)
2059	2,455	1,797	658	8,792	146
2064	2,881	2,108	773	12,419	268

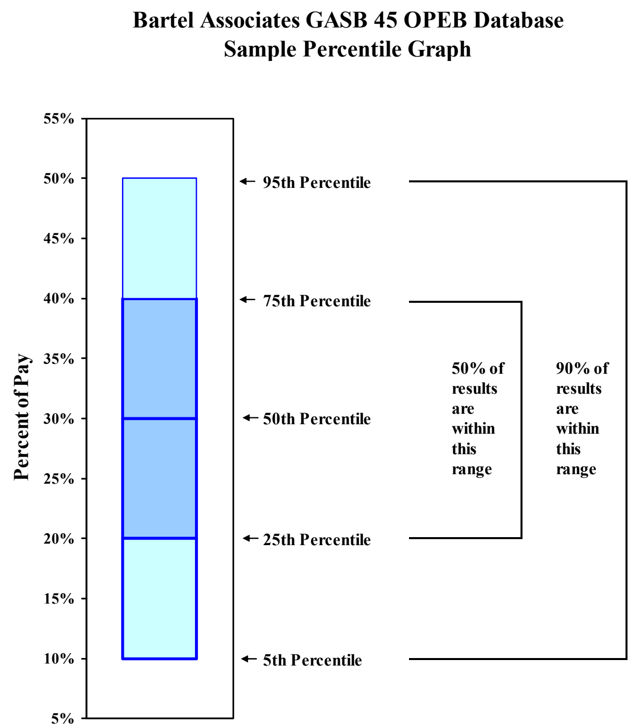
[13] Additional 7.75% of pay CalPERS member contribution for represented employees. Aggregate payroll assumed to increase 3.25% per year.



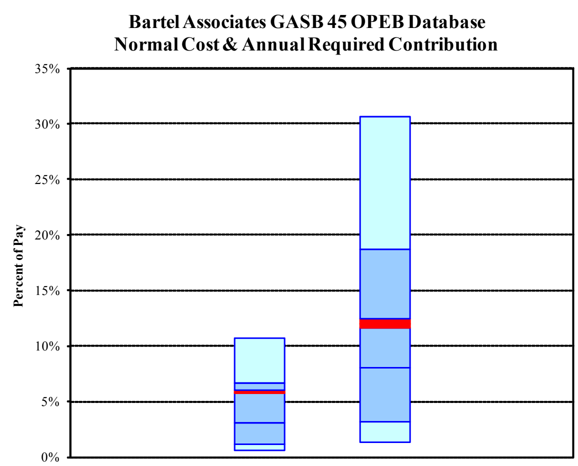
Projection of Estimated CalPERS Savings vs OPEB ARC Increase

- Increase in 2013/14 OPEB ARC due to 2011 plan changes exceeds expected additional 2013/14 CalPERS member contributions by $43,000:
  - $7,000 cost savings for unrepresented employees
  - $50,000 cost increase for represented employees
- Additional CalPERS member contributions projected to exceed additional OPEB ARC for all employees after 24-year UAAL amortization period (Chart A - All Employees)
- Present value of difference between OPEB ARC increase and additional CalPERS member contributions as of June 30, 2013 is greater than zero after a 30-year period (i.e., including 30 years in the present value calculation)
- UAAL amortization period would be 30 years for additional CalPERS member contribution to equal OPEB ARC during UAAL amortization period (Chart B - All Employees)
- Represented member contribution would need to increase 0.65% of pay for the additional CalPERS member contributions to equal the additional OPEB cost during the 24-year amortization period
- If new plan allocated assets were $2,750,000 rather than $2,109,000, expected additional CalPERS member contributions would equal the additional OPEB plan cost during the 24-year amortization period

BARTEL ASSOCIATES OPEB DATABASE



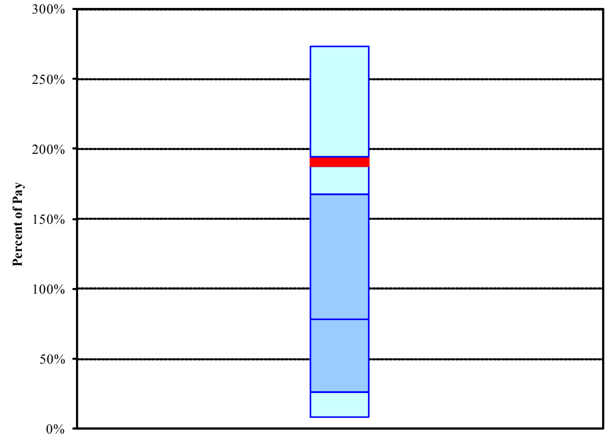
BARTEL ASSOCIATES OPEB DATABASE



	Miscellaneous	
	NC	ARC
95th Percentile	10.7%	30.7%
75th Percentile	6.6%	18.7%
50th Percentile	3.1%	8.0%
25th Percentile	1.2%	3.2%
5th Percentile	0.6%	1.4%
Percent of Pay	**5.8%**	**12.0%**
Percentile	**70%**	**60%**

Discount Rate = 7.25%, Average Amortization Period = 24.0 Years

Bartel Associates OPEB Database



	Miscellaneous
95th Percentile	274%
75th Percentile	168%
50th Percentile	78%
25th Percentile	27%
5th Percentile	9%
Percent of Pay	**191%**
Percentile	**83%**

Discount Rate = 7.25%

Other Issues

GASB Accounting Rules

- **Pension Accounting:**
  - GASB 68, Accounting for Employers, approved June 25, 2012
  - Replaces GASB 27
  - Effective 2014/15
- **Major Issues:**
  - Unfunded liability on balance sheet
  - Expense calculation disconnected from contribution calculation
  - Discount rate is municipal bond rate when assets not sufficient to pay benefits
  - Immediate recognition of AAL for plan changes
  - Deferred recognition of changes in AAL for gains and losses and assumption changes over active and inactive members' average future working lifetime
  - Deferral of investment gains and losses over 5 years
  - Disclosure of asset allocation and expected real rates of return for each asset class
  - Entry age normal cost method
- **OPEB Accounting:**
  - Exposure draft expected April 2014
  - Final statement expected June 2015

Next Steps

- **Next Steps**
  - Final valuation results
  - CERBT actuarial forms
- **Next Valuation**
  - 6/30/15 if no significant changes
  - Review discount rate

Exhibits

2011 Healthcare Monthly Premiums

Healthcare Plan	Non-Medicare Eligible			Medicare Eligible		
	Single	2-Party	Family	Single	2-Party	Family
EPO	$559.08	$1,118.18	$1,453.64	n/a	n/a	n/a
EPO (OOS)	640.62	1,281.24	1,665.61	n/a	n/a	n/a
Gold PPO	480.16	960.32	1,248.43	$384.48	$768.96	$1,203.08
Gold PPO (OOS)	550.18	1,100.37	1,430.47	384.48	768.96	1,203.08
HMO 15	540.46	1,082.05	1,406.32	n/a	n/a	n/a
Dental (self-insured)	41.11	98.65	151.10	41.11	98.65	151.10

2011 Life Insurance Monthly Premiums

Participant	Premium
Employee	19¢ per $1,000
Spouse	60¢ per $1,000

2012 Healthcare Monthly Premiums

Healthcare Plan	Non-Medicare Eligible			Medicare Eligible		
	Single	2-Party	Family	Single	2-Party	Family
EPO	$608.28	$1,216.58	$1,581.55	n/a	n/a	n/a
EPO (OOS)	697.00	1,393.98	1,812.16	n/a	n/a	n/a
Gold PPO	520.14	1,040.31	1,352.41	$416.51	$833.00	$1,303.28
Gold PPO (OOS)	596.02	1,192.03	1,549.63	416.51	833.00	1,303.28
HMO 15	588.69	1,178.59	1,531.79	n/a	n/a	n/a
Dental (self-insured)	41.11	98.65	151.10	41.11	98.65	151.10

2012 Life Insurance Monthly Premiums

Participant	Premium
Employee	19¢ per $1,000
Spouse	60¢ per $1,000

2013 Healthcare Monthly Premiums

Healthcare Plan	Non-Medicare Eligible			Medicare Eligible		
	Single	2-Party	Family	Single	2-Party	Family
EPO	$675.69	$1,351.38	$1,757.40	n/a	n/a	n/a
EPO (OOS)	774.67	1,548.33	2,012.93	n/a	n/a	n/a
Gold PPO	577.72	1,155.44	1,502.88	$462.58	$925.16	$1,448.34
Gold PPO (OOS)	662.56	1,324.11	1,722.05	462.58	925.16	1,448.34
HMO 15	623.17	1,248.36	1,622.06	n/a	n/a	n/a
Dental (self-insured)	41.11	98.65	151.10	41.11	98.65	151.10

2013 Life Insurance Monthly Premiums

Participant	Premium
Employee	19¢ per $1,000
Spouse	60¢ per $1,000

2014 Healthcare Monthly Premiums

Healthcare Plan	Non-Medicare Eligible			Medicare Eligible		
	Single	2-Party	Family	Single	2-Party	Family
EPO	$702.78	$1,404.54	$1,826.82	n/a	n/a	n/a
EPO (OOS)	805.80	1,609.56	2,093.04	n/a	n/a	n/a
Gold PPO	600.78	1,201.56	1,562.64	$483.48	$965.94	$1,512.66
Gold PPO (OOS)	688.50	1,375.98	1,789.08	483.48	965.94	1,512.66
HMO 15	721.14	1,444.32	1,876.80	n/a	n/a	n/a
Dental (self-insured)	41.11	98.65	151.10	41.11	98.65	151.10

2014 Life Insurance Monthly Premiums

Participant	Premium
Employee	19¢ per $1,000
Spouse	60¢ per $1,000

Monthly Premium Increases
2011 to 2014

Actual Increases

Healthcare Plan	Non-Medicare Eligible			Medicare Eligible		
	Single	2-Party	Family	Single	2-Party	Family
EPO	25.7%	25.6%	25.7%	n/a	n/a	n/a
EPO (OOS)	25.8%	25.6%	25.7%	n/a	n/a	n/a
Gold PPO	25.1%	25.1%	25.2%	25.7%	25.6%	25.7%
Gold PPO (OOS)	25.1%	25.0%	25.1%	25.7%	25.6%	25.7%
HMO 15	33.4%	33.5%	33.5%	n/a	n/a	n/a
Dental (self-insured)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Expected Increases

Healthcare Plan	Non-Medicare Eligible			Medicare Eligible		
	Single	2-Party	Family	Single	2-Party	Family
Medical/R_x	29.5%	29.5%	29.5%	31.1%	31.1%	31.1%
Dental	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%

Medical Plan Participation
Non-Waived Participants

June 30, 2013

Medical Plan	Actives	Retirees	
		< 65	≥ 65
EPO	50%	44%	n/a
PPO	12%	53%	100%
HMO	38%	3%	n/a
Total	100%	100%	100%

June 30, 2011

Medical Plan	Actives	Retirees	
		< 65	≥ 65
EPO	63%	41%	n/a
PPO	15%	56%	100%
HMO	22%	3%	n/a
Total	100%	100%	100%

Active Medical Coverage

Medical Plan	Single	2-Party	Family	Waived	Total
EPO	7	14	43		64
PPO	6	4	6		16
HMO	14	9	26		49
Waived[14]				8	8
Total	27	27	75	8	137
Election %	21%	21%	58%		
Waived %				6%	

[14] 2 are spouses of covered employees.

Retiree Medical Coverage

Under Age 65

Medical Plan	Single	2-Party	Family	Waived	Total
EPO	4	10	1		15
PPO	4	13	1		18
HMO	1				1
Waived				0	0
Total	9	23	2	0	34
Election %	26%	68%	6%		
Waived %				0%	

Retiree Medical Coverage
Over Age 65

Medical Plan	Single	2-Party	Family	Waived	Total
EPO	n/a	n/a	n/a		n/a
PPO	13	32	0		45
HMO	n/a	n/a	n/a		n/a
Waived				1	1
Total	13	32	0	1	46
Election %	29%	71%	0%		
Waived %				2%	

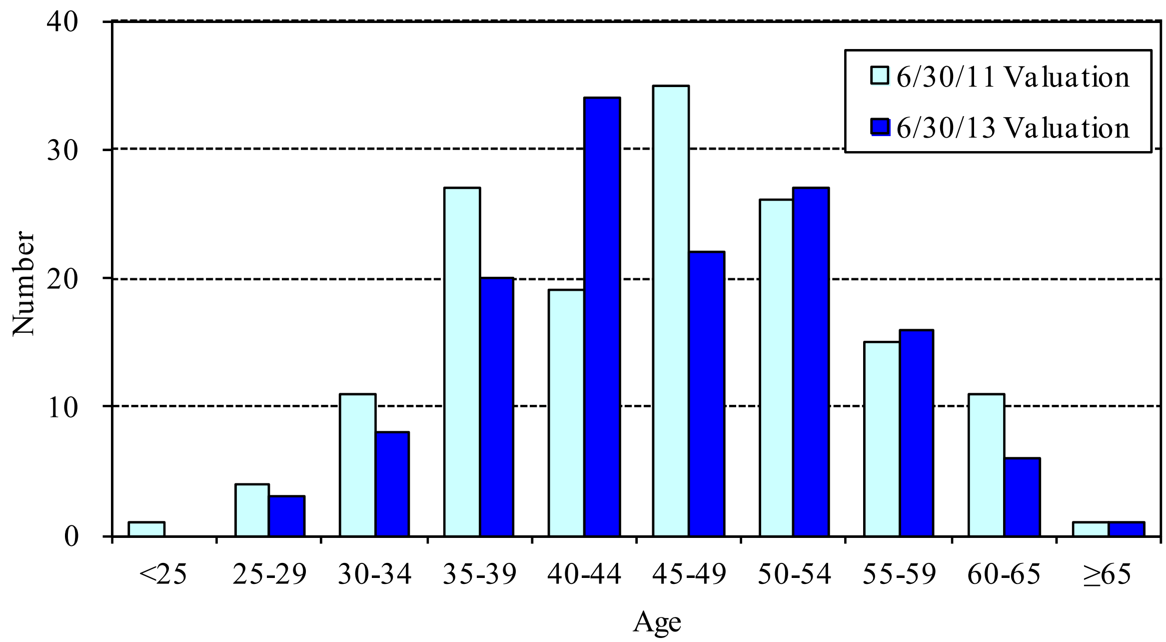
Dental Coverage

Participant Group	Single	2-Party	Family	Waived	Total
Actives	30	34	73		137
Retirees < 65	6	18		10	34
Retirees ≥ 65	12	28		6	46

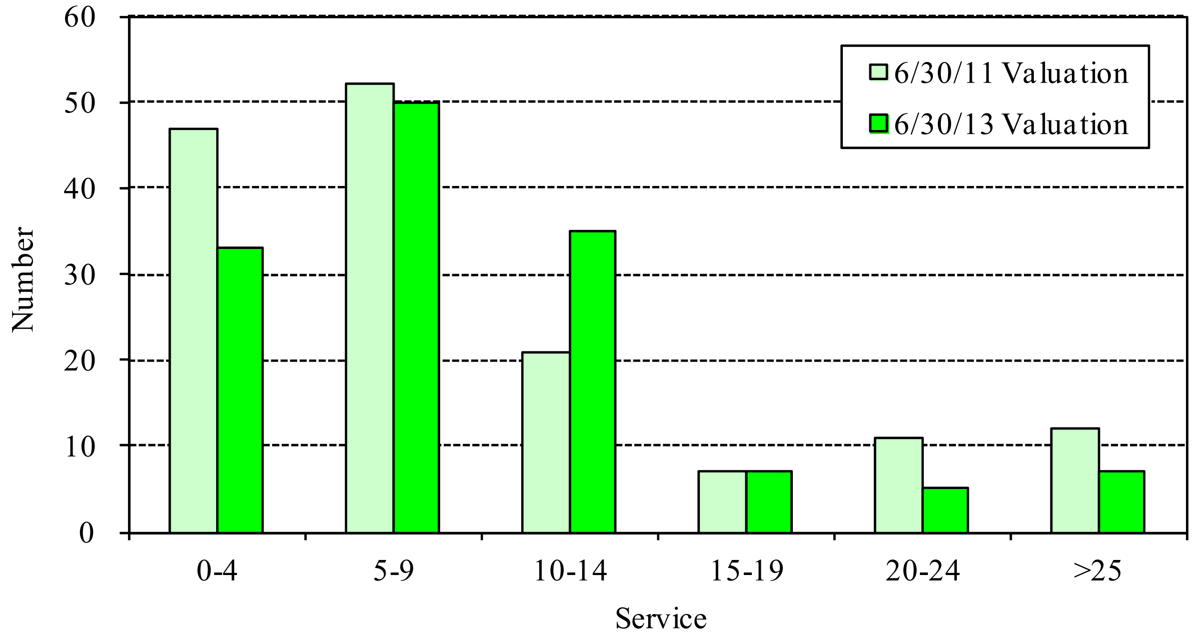
Actives by Age and Service

Age	District Service							
	< 1	1-4	5-9	10-14	15-19	20-24	≥ 25	Total
< 25								
25-29		1	2					3
30-34	2	3	3					8
35-39	5	5	6	3	1			20
40-44	5	3	11	12	2	1		34
45-49		3	9	5	2	1	2	22
50-54	1	2	7	10	1	1	5	27
55-59	2	1	8	2	1	2		16
60-64			3	3				6
≥ 65			1					1
Total	15	18	50	35	7	5	7	137

Active Age Distribution



Active Service Distribution

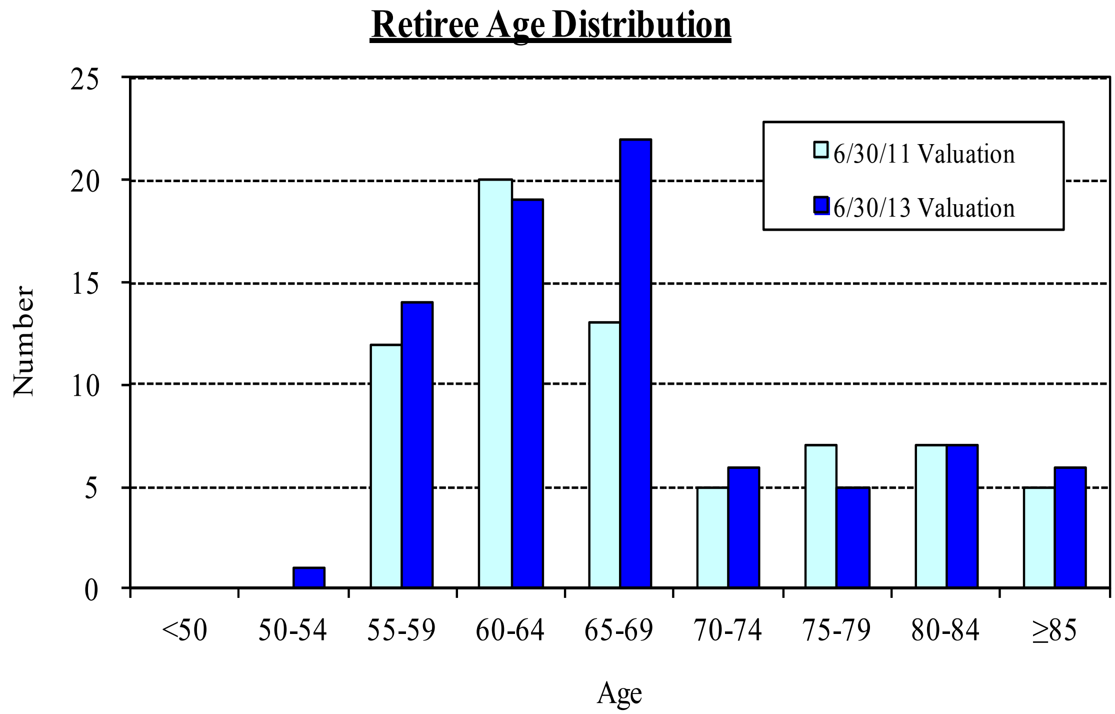


Retiree Healthcare Coverage by Age Group

Age	Single	2-Party	Family	Waived	Total
Under 50					
50-54	1				1
55-59	3	9	2		14
60-64	5	14			19
65-69	6	16			22
70-74	1	5			6
75-79		5			5
80-84	3	4			7
Over 85	3	2		1	6
Total	22	55	2	1	80

Average Age	69.6	68.1	56.5	89.6	68.5
< 65 Election %	26%	68%	6%		
≥ 65 Election %	29%	71%	0%		
Total Election %	28%	70%	2%		
Waived %				1%	

PARTICIPANT STATISTICS



ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Valuation Date	• June 30, 2011 • 2011/12 & 2012/13 ARCs • ARC calculated as of beginning of the year with interest to end of year	• June 30, 2013 • 2013/14 & 2014/15 ARCs • ARC calculated as of beginning of the year with interest to end of year

ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Funding Policy	• Fund full ARC with CERBT Fund #1 • ARC plus benefit payments for 2011/12	• Prefund full ARC with CERBT Fund #1 plus budgeted benefit payments from District assets • Portion of employees' CalPERS member contribution offsets District OPEB cost: ➢ Hired < 1/1/13: - Represented - .75% of pay - Unrepresented - None ➢ Hired ≥ 1/1/13: - Represented - 8.75% of pay less CalPERS member contribution - Unrepresented - 8% of pay less CalPERS member contribution ➢ Not reflected in valuation

ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Discount Rate	• 7.25% - Full ARC funding with CERBT #1 • Includes 0.36% margin for adverse deviation • 7.61% is expected long-term return • 7.25% is at 55% confidence level[15]	• Same
■ General Inflation	• 3% annually • Basis for aggregate payroll and discount rate assumptions	• Same

[15] "55% Confidence Level" means that over the long-term 55% of the time net returns are expected to be greater than 7.25% and 45% of the time net returns are expected to be less than 7.25%.

ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Aggregate Payroll Increases	• 3.25% annually • Inflation plus 0.25% • For Normal Cost calculation and UAAL amortization	• Same
■ Merit Payroll Increases	• CalPERS 1997-2007 Experience Study • Added to aggregate payroll increase assumption for Normal Cost calculation	• Same
■ CalPERS Service	• CalPERS service provided by District	• Same

ACTUARIAL ASSUMPTIONS

Assumption: Medical Trend

June 30, 2011 Valuation

Calendar Year	Increase from Prior Year: Non-Medicare All Plans	Increase from Prior Year: Medicare All Plans
2011	Premiums	
2012	9.5%	10.0%
2013	9.0%	9.4%
2014	8.5%	8.9%
2015	8.0%	8.3%
2016	7.5%	7.8%
2017	7.0%	7.2%
2018	6.5%	6.7%
2019	6.0%	6.1%
2020	5.5%	5.6%
2021+	5.0%	5.0%

- Calendar year premiums used for following fiscal year

June 30, 2013 Valuation

Calendar Year	Increase from Prior Year: Non-Medicare All Plans	Increase from Prior Year: Medicare All Plans
2011	n/a	
2012	n/a	
2013	Premiums	
2014	Premiums	
2015	8.0%	8.3%
2016	7.5%	7.8%
2017	7.0%	7.2%
2018	6.5%	6.7%
2019	6.0%	6.1%
2020	5.5%	5.6%
2021+	5.0%	5.0%

- Calendar year premiums prorated for fiscal year

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Dental Trend	• 4.0% annually	• Same

ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Claims Cost Aging Factors	• Relative relationship between actual claims costs by age: Age / M / F <30 / 0.50 / 1.05 30-34 / 0.65 / 1.15 35-39 / 0.80 / 1.20 40-44 / 0.85 / 1.35 45-49 / 1.05 / 1.60 50-54 / 1.35 / 1.60 55-59 / 1.75 / 1.65 60-64 / 2.20 / 1.80	• Same
■ Dental Claims Cost	• Premium x loss ratio ➢ Employee - 90% ➢ Spouse - 71% ➢ Child - 71%	• Premium x loss ratio ➢ Employee - 91% ➢ Spouse - 71% ➢ Child - 71%

ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Mortality, Termination, Disability	• CalPERS 1997-2007 Experience Study	• CalPERS 1997-2007 Experience Study • Mortality improvement projection Scale AA. Sample annual longevity increases: Age / Male / Female 50 / 1.8% / 1.7% 60 / 1.6% / 0.5% 70 / 1.5% / 0.5% 80 / 1.0% / 0.7%

ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ District Service for Retirement	• Hired < 1/1/81 - 5 years of District service • Hired ≥ 1/1/81 & < 7/1/93 and General Manager - Age plus District service ≥ 70 • Hired ≥ 7/1/93: ➢ Unrepresented employees - 15 years of District service ➢ Represented employees - 18 years of District	• Hired < 1/1/81 - 5 years of District service • Hired ≥ 1/1/81 & < 7/1/93 and General Manager - Age plus District service ≥ 70 • Hired ≥ 7/1/93: ➢ Unrepresented employees: - Hired < 1/1/13 - 15 years of District service - Hired ≥ 1/1/13 - 20 years of District service ➢ Represented employees: - 20 years of District service - 5 years of District service if employee does not have 15 or 20 years of service at age 65

ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Service Retirement	• CalPERS 1997-2007 Experience Study CalPERS Benefit 2.7%@55 CalPERS Hire Age 35 Expected Retire Age 58.1	• CalPERS 1997-2007 Experience Study[16] CalPERS / Misc / ERA CalPERS Hire Age 35 Hire < 1/1/13 2.7%@55 58.1 Hire ≥ 1/1/13 ➢ Classic Member 2.7%@55 58.1 ➢ New Member 2.0%@62 60.9
■ Hardship Retirements	• 5% of employees eligible to retire at ages 50 through 54	• Same
■ Participation at Retirement	• Currently covered and waived ➢ Medical - 100% ➢ Dental - 80%	• Currently covered and waived ➢ Medical - 100% ➢ Dental - 100%

[16] Expected Retirement Ages (ERA) for new member formulas based on CalPERS retirement assumptions for its AB 340 (PEPRA) actuarial cost analysis.

ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Medical Plan at Retirement	• Currently covered: ➢ Current plan election until Medicare eligible ➢ PPO after Medicare eligible • Waived actives - PPO • Waived retirees - n/a	• Same
■ Preretirement Survivor Benefit	• Not included	• Included
■ Medicare Eligibility	• 100% eligible for Medicare at age 65 • All Medicare eligibles will elect Part B coverage	• Same

ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Marital Status at Retirement	• Actives ➢ Married if currently elect 2-party or family coverage ➢ Waived - 80% married • Retirees - based on spouse information if provided	• Same
■ Spouse Age	• Actives - males 3 years older than females • Retirees - males 3 years older than females if spouse birth date not provided	• Same

ACTUARIAL ASSUMPTIONS

Assumption	June 30, 2011 Valuation	June 30, 2013 Valuation
■ Spouse & Dependent Coverage at Retirement	• Spouse coverage: ➢ 100% elect CalPERS joint and survivor annuity ➢ Coverage assumption same as retiree assumption • Family coverage: ➢ Current actives -10% until age 65 if assumed married ➢ Current retirees - current coverage until age 65	• Same

ACTUARIAL METHODS

Method	June 30, 2013 Valuation
■ Cost Method	• Entry Age Normal • Normal Cost is a level percentage of payroll
■ Actuarial Value of Assets	• Investment gains/losses spread over 5-year rolling period • Not less than 80% nor more than 120% of market value
■ Amortization Method	• Level percent of payroll
■ Amortization Period	• 30-year fixed (closed) period for initial UAAL as of 6/30/07 for 2007/08 ARC • 24-year fixed (closed) period for UAAL as of 6/30/13 for 2013/14 ARC • Amortization period decreases by one year each fiscal year • When amortization period reaches 15 years, new gains and losses will be amortized over a rolling (open) 15-year period and plan and assumption changes will be amortized over fixed (closed) 20-year period

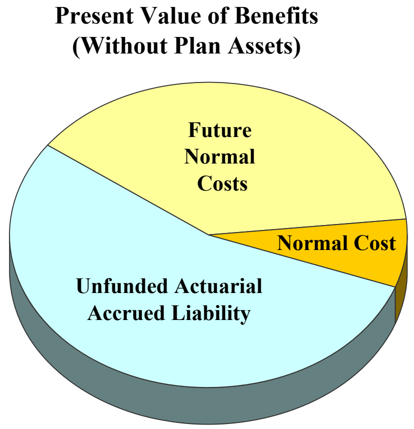
ACTUARIAL METHODS

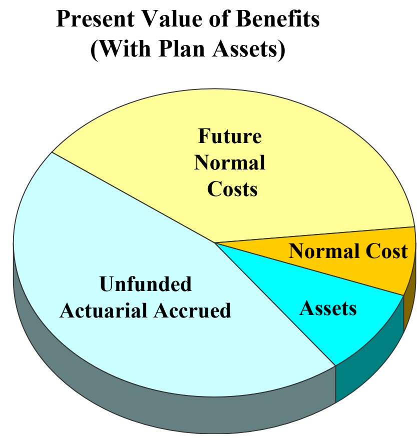
Method	June 30, 2013 Valuation
■ Life Insurance	• Valuation includes the discounted value and cost for retiree life insurance premiums
■ Implied Subsidy	• Employer cost for allowing non-Medicare eligible retirees to participate at active rates • Valuation includes an implied subsidy for medical but not dental or life insurance
■ Future New Entrants	• Valuation Results – Closed group, no new hires • Projections – Simplified open group projection: ➢ Actives - Total pay increased in accordance with aggregate payroll assumption ➢ Normal Cost - New hires assume to have same NC as a percentage of pay as current actives ➢ Retirees - no additional retirees from new hires over 10-year projection period

GASB 45 SUMMARY

■ GASB 45 Accrual Accounting	• Project future employer-provided benefit cash flows for current active employees and current retirees • Discount projected cash flow to valuation date using discount rate (assumed return on assets used to pay benefits) and other actuarial assumptions to determine present value of projected future benefits (PVB) • Allocate PVB to past, current, and future periods using the actuarial cost method • Actuarial cost method used for this valuation is the Entry Age Normal Cost method which determines Normal Cost as a level percentage of payroll (same method used by CalPERS) • Normal Cost is amount allocated to current fiscal year • Actuarial Accrued Liability (AAL) is amount allocated to prior service with employer • Unfunded AAL (UAAL) is AAL less plan assets pre-funded in a segregated and restricted trust
■ PayGo Cost	• Cash subsidy is the pay-as-you-go employer benefit payments for retirees • Implied subsidy is the difference between the actual cost of retiree benefits and retiree premiums subsidized by active employee premiums

Present Value of Benefits





■ Annual Required Contribution (ARC)	• "Required contribution" for the current period including: ➢ Normal Cost ➢ Amortization of: - Initial UAAL - AAL for plan, assumption, and method changes - Experience gains/losses (difference between expected and actual) - Contribution gains/losses (difference between ARC and contributions) • ARC in excess of pay-as-you-go costs not required to be funded
■ Net OPEB Obligation (NOO)	• Net OPEB Obligation is the accumulated amounts expensed but not funded • Net OPEB Asset if amounts funded exceed those expensed
■ Annual OPEB Cost (AOC)	• Expense for the current period including: ➢ ARC ➢ Interest on NOO ➢ Adjustment of NOO • NOO adjustment prevents double counting of expense since ARCs include an amortization of prior contribution gains/losses previously expensed