

SAN DIEGO COUNTY WATER AUTHORITY



COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2000

*PREPARED BY THE FINANCE DEPARTMENT
KAREN P. BRUST
DIRECTOR OF FINANCE/TREASURER*

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INTRODUCTORY SECTION



San Diego County Water Authority



San Diego County Water Authority

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October 4, 2000

The Honorable Board of Directors
San Diego County Water Authority
3211 Fifth Avenue
San Diego, CA 92103-5718

Honorable Board of Directors:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the San Diego County Water Authority (Authority) for the Fiscal Year ended June 30, 2000. The purpose of the report is to provide the Board of Directors, the member agencies, the Authority's investors and other interested parties with reliable financial information about the Authority. The Authority's Finance Department in accordance with generally accepted accounting principles has prepared the CAFR. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with Authority management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the Authority. The report is presented in three parts:

- 1. Introductory Section** - Includes the Transmittal Letter, a listing of the Authority's Principal Officers and the Authority's Organizational Chart as well as other relevant information to assist the reader in understanding the Authority's management structure, operations and financial condition.
- 2. Financial Section** - Includes the Independent Auditor's Report, the Authority's Financial Statements for the Fiscal Years ended June 30, 2000 and 1999 and explanatory footnotes.
- 3. Statistical Section** - Includes several tables of unaudited data representing the financial history of the Authority, as well as demographic and other miscellaneous statistics, generally presented on a multi-year basis.

REPORTING ENTITY

The Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed

by revenues derived from user charges. As an enterprise fund, the Authority uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred. The Authority has no component units associated with its financial reporting entity.

The Authority applies all applicable GASB pronouncements in accounting and reporting for proprietary operations, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure.

Authority policy requires that its financial statements be audited on an annual basis by an independent certified public accounting firm selected by the Board of Directors. The independent auditor's report for the Fiscal Years ended June 30, 2000 and 1999 are presented in the Financial Section of this report.

DISTRICT FORMATION AND ORGANIZATION

The San Diego County Water Authority (the Authority) was organized on June 9, 1944 under the County Water Authority Act (the Act) for the primary purpose of providing a supplemental supply of imported water to its member agencies for domestic, municipal and agricultural uses. The boundaries extend from the border of Mexico to Orange and Riverside Counties, and from the Pacific Ocean to the foothills that terminate the coastal plain on the east. The Authority's service area encompasses approximately 909,000 acres. The Authority's service area is a semi-arid region where rainfall and groundwater typically meet only about 10 percent of the region's water needs. Thus, the Authority provides the remaining 90 percent, which it purchases from outside sources. As a wholesaling entity, the Authority has no retail customers; it services only its member water agencies. The Authority has 23 member agencies, which consist of six cities, four water districts, three irrigation districts, eight municipal water districts, one public utility district, one federal agency, and the County of San Diego as an ex-officio member. The Authority purchases water from the Metropolitan Water District of Southern California (MWD), which derives its supply from the Colorado River and the State Water Project. The Authority delivers this water to its 23 member agencies through five large-diameter pipelines located in two right-of-way corridors known as the First and Second San Diego Aqueducts. The Authority is currently in the process of seeking alternative assured sources of water in addition to the MWD. During 1999, the Authority executed the Imperial Irrigation District Water Transfer Agreement, which will provide an alternative source of water.

In addition, the Authority's Act authorizes the Authority to exercise the power of eminent domain; levy and collect taxes; and fix, revise, and collect rates or other charges for the delivery of water, use of facilities or property, and provisions for service. The Authority is empowered to fix, in each fiscal year, a water standby availability charge on land within the Authority's boundaries. The standby charge is \$10 per acre per year, or \$10 for a parcel less than an acre. The Authority is also authorized to utilize any part of its water -- and any part of its facilities used for the development, storage, and transportation of water -- to provide, generate, and deliver hydroelectric power. The Authority may acquire, construct, operate, and maintain any of its facilities for such utilization. Pursuant to contract, the Authority is authorized to provide, sell,

and deliver hydroelectric power to the United States, the State of California, and any other entity engaged in the sale of retail electric power.

The Authority is governed by a 34-member Board of Directors representing the Authority's member agencies. Each of the 23 member agencies has at least one voting representative on the Board. Additionally, the County of San Diego sits as an ex-officio member. The City of San Diego is represented by 10 Directors, the Helix Water District by two Directors and all other agencies by one Director each. Except as otherwise provided in the County Water Authority Act with respect to certain specific matters, Board action requires the affirmative votes of member agencies representing more than 55 percent of the total number of votes of all the member agencies.

Officers of the Board of Directors begin service in January of odd-numbered years. To facilitate matters, most business coming before the Authority's Board, is first considered by one of its committees. Each committee then reports to the full Board, which makes the necessary decisions. There are eight standing committees which include: Administrative & Legal, Engineering & Operations, Fiscal Policy, Planning & Environmental, Public Affairs, Water Policy, Special Budget and Executive. In addition, the Authority has six Directors who also serve on the Metropolitan Water District's Board. The Authority is also represented on the Colorado River Board. This State agency's purpose is to protect California interests in the water and power resources of the Colorado River System.

The Authority's day-to-day operations are managed by the General Manager, who reports directly to the Board of Directors. The General Counsel also reports directly to the Board. Reporting to the General Manager are the Deputy General Manager, Executive Assistant to the General Manager and nine departments: Administrative Services, Engineering, Finance, Human Resources, Imported Water, Operations and Maintenance, Public Affairs, Right of Way and Water Resources.

ECONOMIC CONDITIONS AND OUTLOOK

The San Diego economy is growing and this is evident in several major sectors. One of the most important signals of economic progress is employment. Growth in recent years has been concentrated in four major areas: service industry, tourism, international trade, and high-tech manufacturing and research (including electronics, communications, pharmaceutical, scientific and biomedical equipment). In addition to these expanding industries, San Diego benefits from a stable economic foundation composed of basic manufacturing (ship building, industrial machinery, television and video equipment, and printing and publishing), public and private higher education, health services, military, and local government.

San Diego's economic transformation during the decade of the 90's is a major and remarkable turnaround. The recession in the first half of the decade was the longest and most severe since the Great Depression. The downturn and subsequent recovery and expansion were not mere business or cyclical adjustments, but an extensive overhauling and restructuring of basic economic drivers. Due to the region's depth of business and labor force rich with talent and experience, several high technology-based, commercial endeavors emerged and led San Diego's economic transformation. Some of these sectors were by-products of the defense-

related industries and knowledge, as well as capitalization of a high-tech educated labor force. Emerging growth areas include telecommunications, electronics, computers, software and biotechnology. Advanced telecommunications became San Diego's leading technology industry. Locally spawned and headquartered, Qualcomm pioneered digital wireless and satellite communications systems, and established San Diego as a leading center for telecommunications technology. Qualcomm quickly became the largest high technology employer locally with more than 11,000 workers in 1999. The company also joined with Sony and Ericsson in designing and manufacturing digital cellular phone equipment in San Diego.

One of the clearest evidences of San Diego's strong economic expansion recently is the creation of new jobs within the region. San Diego's total adult civilian labor force, actively employed or pursuing employment, averaged 1,339,400 during 1999. The number is projected to rise another 1.8 percent in 2000 to 1,363,700. Civilian employment, the number of San Diegans actively working, averaged 1,297,000 during 1999, the highest ever reported for the County. This number is forecast to rise by 1.7 percent in 2000 to 1,318,900, establishing another record for the region's working labor force. On the other side of the labor market, the number unemployed fell to an annual average of only 42,400 in 1999. This is less than one-half the number unemployed in 1993, which averaged 94,700. The number is projected to rise slightly in 2000 to 44,800. It is important to note the number has dropped in half despite the significant amount of population and labor force growth over the decade. San Diego's unemployment rate subsequently dropped from an annual rate of 3.6 percent in 1998 to only 3.2 percent in 1999, the lowest annual rate recorded in several decades. The low level of local unemployment is forecast to remain lower than the rest of the nation in 2000. San Diego's forecast of 3.3 percent unemployment in 2000 compares with 5.6 percent projected for California and 5.0 percent for the United States.

San Diego County's population will exceed the 3 million mark during 2001. The largest ever population for the region was reported in 1999 for 2,908,300. San Diego's local population is the nation's fourth most populous county and 17th largest metropolitan area. Construction significantly increased in more recent years to 11,148 units in 1997 and 12,434 in 1998. The number is estimated to have risen to 14,913 units in 1999, the highest level recorded in the 1990's. Despite the heightened level of activity, the number of units under construction still falls far short of the housing needed to accommodate the population growth. With the surge of population, the demand noticeably and suddenly resurfaced again for San Diego housing. Reversing a six-year slump in price, local housing prices began moving slightly upward in 1996. Prices quickly escalated thereafter rising to record highs in 1999. Single-family construction showed significant gains in the past two years rising to an estimated 9,700 in 1999, the highest level of the decade. Another 9,000 units are projected for 2000. The tightening rental market spurred investment activity for San Diego's apartment units. New construction and sales transactions rose to decade-high levels. Construction of multiple-units jumped to an estimated 6,900 units in 1999. This number is projected to decline to 6,000 units in 2000, despite far more demand for this type of more affordable housing.

MAJOR INITIATIVE - EMERGENCY STORAGE PROJECT

The \$771 million Emergency Storage Project is an important investment for the future reliability of San Diego County's water supply. It is part of the Authority's \$1.14 billion Capital

Improvement Program (CIP). The CIP was initiated to enhance the pipeline delivery system and to increase operational flexibility in supplying water throughout the County.

The Emergency Storage Project (ESP) will increase the amount of water available during emergencies. The project consists of a system of reservoirs, interconnected pipelines and pump stations that will create additional water storage space and ensure water flows to all areas of the County even if a disaster disrupts the region's imported water supply. The additional 90,100 acre-feet of water storage capacity, combined with the storage space already dedicated to emergency use, is projected to meet the County's emergency water needs through at least the year 2030.

Once complete, the ESP will connect a new reservoir in the Olivenhain area with Lake Hodges and expand the San Vicente Reservoir. A pipeline will connect the Olivenhain Reservoir with the Water Authority's Second Aqueduct. Another pipeline will connect the reservoir with Lake Hodges, allowing the facilities to be operated as one unit for emergency storage purposes. Combined, the Olivenhain and Lake Hodges reservoirs will add about 38,000 acre-feet of new storage capacity. The Authority will increase the height of the San Vicente Dam, north of the community of Lakeside, creating another 52,100 acre-feet of emergency water storage. A pipeline will be constructed to deliver water from the San Vicente Reservoir to the Authority's Second Aqueduct.

Olivenhain Dam

The construction of the Olivenhain Dam, with its accompanying pipelines and pump station, is a key component of the Emergency Storage Project. The dam will be 308 feet high, 2,400 feet wide at the crest, and fed by underground pipelines carrying imported water from the Colorado River and Northern California. The new reservoir will hold 24,000 acre-feet of water. Approximately 4,000 acre-feet will be designated for Olivenhain Municipal Water District's operational use. The Olivenhain Dam project is financed through a cooperative effort between the San Diego County Water Authority and the Olivenhain Municipal Water District, a one-sixth partner.

When filled to maximum capacity, Olivenhain Reservoir will have a surface area of 200 acres and a depth of 300 feet. It will be surrounded by a spectacular 750-acre open-space park and recreational area in the Elfin Forest Recreational Reserve. This reserve will offer 17 miles of hiking, mountain biking, equestrian trails and viewing points. The wildlife and natural resources on this reserve are fully protected and will be preserved for generations to come.

The Olivenhain Dam will be the largest dam in North America constructed of roller-compacted concrete. Granite quarried from the canyon itself will be the primary construction material used for the Olivenhain Dam. The rock will be crushed into various sizes and mixed with other materials to produce the concrete. Roller-compacted concrete is similar to traditional concrete, but is less expensive, requires less water and is much stiffer when it is placed. A roller-compacted concrete dam is as strong as a conventional concrete dam and will remain operational even in the face of a natural disaster, such as an earthquake.

Roller-compacted concrete is placed in layers. The layers are compacted with rollers similar to those used in road building. Interruption to the work must be minimized to facilitate bonding of the layers. Therefore, crews will usually work 24 hours a day, seven days a week during a 12-month period to construct the dam.

Olivenhain Pipelines Project

Pipelines are the crucial links that allow water to be moved throughout the County. The Olivenhain Pipelines Project consists of two separate underground pipelines. One pipeline will allow the Water Authority to move untreated water in either direction between the Water Authority's Second Aqueduct and the Olivenhain Reservoir. This pipeline will be used for both normal operating and emergency conditions and will consist of approximately 14,000 feet of 78-inch-diameter, welded-steel pipe. The other pipeline will deliver treated water from the Olivenhain Water Treatment Plant to the Olivenhain Municipal Water District's distribution system and will consist of approximately 13,000 feet of 48-inch-diameter, welded-steel pipe.

Lake Hodges

Lake Hodges, located five miles south of Escondido, is owned, operated and maintained by the City of San Diego. The lake covers a surface area of more than 1,000 acres. As part of the ESP, a pipeline will be constructed to connect the Olivenhain Reservoir to Lake Hodges, allowing water to be moved in and out of the two reservoirs as needed.

San Vicente Dam

The ESP will ultimately include raising the height of the existing San Vicente Dam by 54 feet to provide room to store another 52,100 acre-feet of water. The Water Authority will also construct a pump station, additional pipelines and enhancements to the current recreational facilities at the dam.

San Vicente Dam is owned and operated by the City of San Diego. In addition to storing raw water that is treated for use as drinking water, San Vicente Reservoir provides recreational opportunities for many residents in San Diego County. Through the ESP, San Vicente Reservoir will be enhanced with recreational improvements such as new shaded picnic areas and landscaping, improved and additional boat ramps, restored waterfront beach areas and road improvements leading to the area.

Public Participation

The ESP has involved more public participation, community involvement and public input than any other project since the San Diego County Water Authority's formation in 1944. Because of the project's size and importance, the Water Authority's public participation programs far exceeded any legal requirements. More than 250 public workshops, forums, and presentations to community groups, government officials and the news media have been held to ensure the project reflected the input of interested citizens. Together with the Olivenhain Municipal Water District, the Water Authority has been meeting with residents and community groups to involve them in how to best minimize the construction impacts in their neighborhoods.

The ESP timelines have been broken down into four phases. Phase One began in 1998 and is expected to continue until 2003, and will include the Olivenhain Dam, Olivenhain Pipelines and Interconnections, Olivenhain Pump Station and the San Vicente South Connection. Phase Two, expected to be constructed from 2002 through 2006, includes the San Vicente Pump Station, San Vicente to Second Aqueduct Pipeline and Interconnection and the Operations Center Upgrade. Phase Three, scheduled for 2004 through 2008, will include Pipeline 5 Pump Station, Lake Hodges Inlet/Outlet, Lake Hodges Pipeline, Lake Hodges Pump Station, Pipeline 3 Pump Station and Interconnection and Pipeline 4 Pump Station. The final phase, Phase Four, will include the construction of the San Vicente Recreational Facilities and the San Vicente Dam Raise. Phase Four construction is expected to take from 2008 to 2010.

ACCOMPLISHMENTS

Recently, the Authority was given two awards for a project completed in 1999, the Rancho Penasquitos Pipeline. This 9-foot-diameter, 10-mile-long steel pipeline will provide up to 400 million gallons per day to the central and southern parts of the County. The awards came from the American Public Works Association and the American Society of Civil Engineers.

THE AUTHORITY'S FUTURE

In order to meet San Diego County's needs for additional water resources by supplementing the existing imported water supply, the Authority's water reliability program and corresponding strategies have extended beyond the County's borders. The Authority is working on local, regional, statewide, and national fronts to ensure that the region's water supply remains reliable. Among the major issues that directly affect these efforts are water transfers, the Authority's relationship with MWD, Colorado River operations, the CALFED Bay-Delta Program, and emergency storage.

As previously mentioned, the Authority reached two historic agreements that will make available to the San Diego region a new supply of up to 200,000 acre-feet of water annually for between 45 and 75 years. The first agreement is the Water Conservation and Transfer Agreement with IID. Under this agreement, extraordinary conservation measures will be employed in Imperial County and the water that is saved will be sold to the Authority for use in San Diego County. The second agreement is the Water Exchange Agreement between the Authority and MWD. Under this 30-year agreement, the Authority gains the ability to essentially move IID transfer water into San Diego County, via the Colorado River Aqueduct.

In Fiscal Year 2000-2001, the Authority will continue efforts to satisfy the remaining contingencies necessary to implement the Water Transfer and Water Exchange agreements. The Authority and IID must complete the environmental review process and gain approval for the Transfer Agreement from the California State Water Resources Control Board and Federal Department of the Interior. The Authority also is working with IID and MWD to bring the Transfer Agreement, the Exchange Agreement and the Colorado River Quantification Settlement into conformity. The Authority continues to play a key role in the process to finalize agreements needed to complete the California 4.4 Plan for the Colorado River. A linchpin of the 4.4 Plan is the IID-Authority transfer. Completion of the 4.4 Plan will not only advance the water transfer, but will also lead to changes in the reservoir operations to ensure that MWD can keep the

Colorado River Aqueduct full for the next 15 years while the 4.4 Plan is implemented. In addition, the Authority will continue to work with the CALFED program in its effort to resolve long-standing deficiencies in the Bay-Delta.

Water transfers, Colorado River plans and Bay-Delta solutions all represent changes in how the water providers traditionally have done business in California. Changes also are afoot in the financial area of the water industry. The Authority is working with its member agencies on a detailed study of its revenues and rate structure. The study may result in changes in the relationship between the Authority and the member agencies. The status quo may be retained, but the Authority Board of Directors also may consider other options such as establishing a rate for water transportation separate from the rate for supply, or charging its member agencies separately for water, transportation and other services. The Board also is considering the possibility of establishing contracts between the Authority and its member agencies for water and/or other services.

ACCOUNTING SYSTEM

The Finance Department is responsible for providing the financial services for the Authority, including financial accounting and reporting, payroll and accounts payable, custody and investment of funds, borrowing of funds, protection of credit ratings in the investment market, investor relations, long-range financial planning, budgeting, billing and collection of water charges, taxes, and other revenues, internal auditing and special financial analyses. The Authority's books and records are maintained on an enterprise basis as it is the intent of the Board to manage the Authority's operations as a business, thus matching revenues against costs to provide water service. Revenues and expenses are recorded on the accrual basis in the period in which revenue is earned or expenses are incurred.

INTERNAL CONTROLS

The Authority's management is responsible for establishing and maintaining a system of internal controls designed to safeguard the Authority's assets from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance that these objectives are met. When establishing or reviewing controls, management must recognize that the cost to implement a control should not exceed the benefits likely to be derived, and that in order to assess cost vs. benefit, estimates and judgement on the part of management will be required. All internal control evaluations occur within the above framework. Management believes the current system of internal controls adequately safeguards the Authority's assets and provides reasonable assurance that accounting transactions are properly recorded.

BUDGETARY CONTROLS

The Authority is not legally required to adopt and adhere to a budget or to a budget or to present budgetary comparison information; however, the Board chooses to approve an annual budget as a management tool. Because water demand cannot be accurately forecasted due to forces outside of the Authority's control, actual revenues and expenditures may vary significantly

from the approved budget. As such, the budget is viewed as a tool for estimating and planning Authority revenues and expenditures and is used only for comparative purposes to identify unusual or unexpected trends.

CASH MANAGEMENT

The Authority is legally empowered by statute and ordinance to invest in obligations of the United States and certain of its agencies and instrumentalities, certain money market funds, the State of California Local Agency Investment Fund, commercial paper, medium-term notes, bankers acceptances, negotiable certificates of deposit, and deposit accounts of those financial institutions which are approved as depositories by the Authority's Board of Directors, as well as certain other types of investments which were not made during this Fiscal Year ended June 30, 2000. The Board of Directors further resolved that funds deposited with the State of California Local Agency Investment Fund shall not exceed \$30,000,000 and \$175,000,000 for bond proceeds. Total interest earned, net of GASB 31 mark to market adjustment on all funds for the Fiscal Year ended June 30, 2000, was \$19,822,838 compared to \$15,533,516 from the last fiscal year. Average yield for the Fiscal Year ended June 30, 2000 was 6.28% up from 5.32% for the Fiscal Year ended June 30, 1999.

RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a participant in the Association of California Water Agencies Joint Powers Insurance Authority (JPIA) for the purpose of providing general liability insurance for the member agencies. The Authority had a self-insured retention level of \$50,000 per claim for auto and general liability for the years ended June 30, 2000 and 1999. The total coverage limit is \$50,000,000 at June 30, 2000 and 1999. The program provides for up to \$100,000,000 in coverage for property damage with a \$25,000 deductible.

The Authority is also a participant in the JPIA for the purpose of providing insurance coverage for Workers' Compensation. Liabilities under this program are accrued and charged to expense when the claims are reasonably determinable and when the existence of the Authority's liability is probable. There is no self-insurance retention required for the years ended June 30, 2000 and 1999. The total coverage under this policy is \$5,500,000.

In 1999, the Authority entered into an Owner Controlled Insurance Program to provide worker's compensation and general liability insurance to the contractors of the Emergency Storage Program. Premiums are adjusted annually based on loss experience. The general liability deductible is \$250,000 per occurrence. The total coverage limit is \$2 million per occurrence and \$4 million aggregate. The worker's compensation program provides full statutory coverage with a \$250,000 deductible for each occurrence.

PENSION PLANS

The San Diego County Water Authority contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living

adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. The Authority has elected to make contributions on behalf of its employees. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by PERS.

In addition, the Authority has adopted a Deferred Compensation Plan in accordance with Section 457 of the Internal Revenue Code. Generally, all eligible employees may defer receipt of a portion of their salary until future years. The employees are not liable for income taxes on amounts deferred until the funds are withdrawn. All assets are held for the exclusive benefit of the participants and their beneficiaries. Therefore, the plan assets and corresponding liability to the participants are no longer recognized in the accompanying financial statements. At June 30, 2000 and 1999, assets of the Plan totaled \$12,374,104 and \$10,412,318, respectively.

ACKNOWLEDGEMENTS

I would like to thank the Board of Directors for their continued leadership in excellence in financial management. Additionally, this report could not have been accomplished without the hard work and dedication of the entire Finance Department.

Respectfully submitted,



Maureen A. Stapleton
General Manager

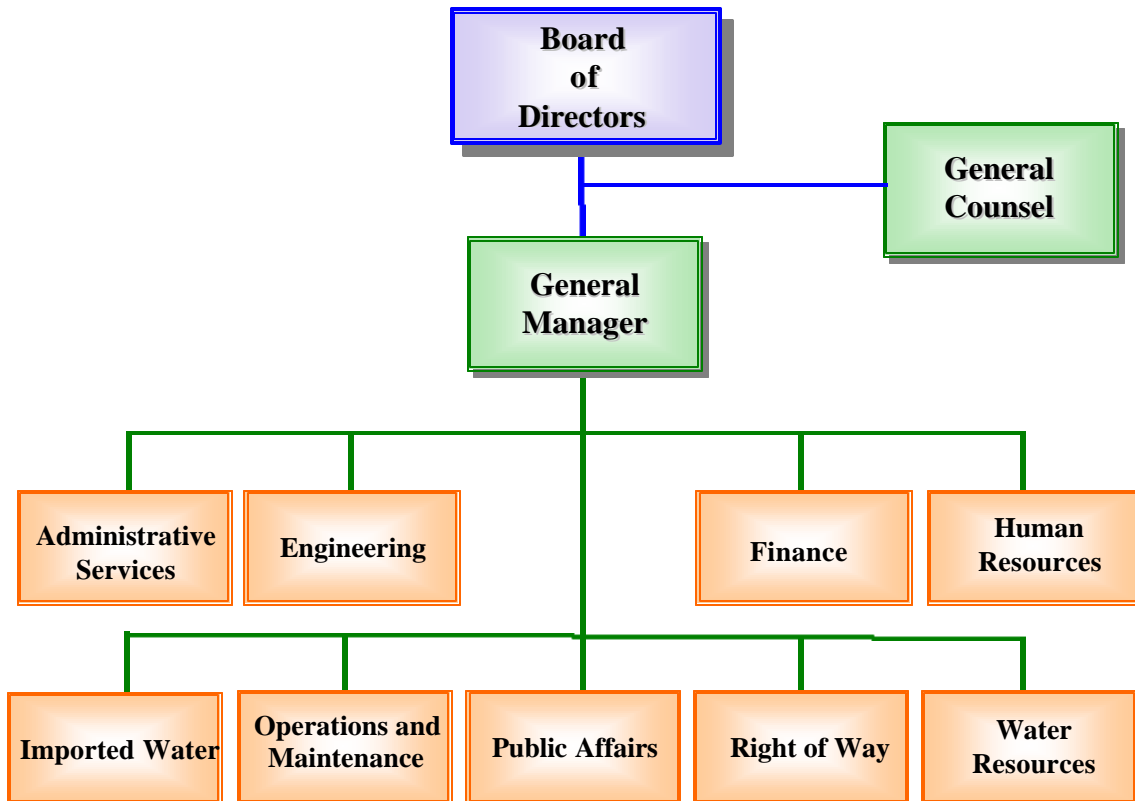


Karen P. Brust
Director of Finance/Treasurer

**San Diego County Water Authority
List of Principal Officials**

Joseph Parker.....Chair of Board of Directors
Harold Ball Vice Chair of Board of Directors
Francesca Krauel..... Secretary of Board of Directors
Maureen A. Stapleton.....General Manager
Daniel S. Hentschke General Counsel
Christopher J. Guild Deputy General Manager
Karen P. Brust..... Director of Finance/Treasurer

**San Diego County Water Authority
Organizational Chart**



FINANCIAL SECTION



San Diego County Water Authority

September 8, 2000

Board of Directors
San Diego County Water Authority
San Diego, California

Independent Auditor's Report

We have audited the accompanying basic financial statements of the San Diego County Water Authority (the Authority) as of and for the year ended June 30, 2000, as listed in the table of contents. These basic financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the Authority as of June 30, 1999, before the restatement discussed in notes 5 and 6 to the financial statements, were audited by other auditors whose report dated September 15, 1999 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the San Diego County Water Authority as of June 30, 2000, and the result of its operations and the cash flows for the year then ended in conformity with generally accepted accounting principles.

During the year ended June 30, 2000, the Authority implemented GASB Statement No. 33 and GASB Statement No. 34, as discussed further in notes 5 and 6 to the financial statements.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis of the basic financial statements and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing

procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The scope of our audit did not include the statistical schedules listed in the table of contents and we do not express an opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 8, 2000 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Comad and Associates, L.L.P.

September 8, 2000

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board has recently issued a new accounting standard referred to as GASB Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. GASB No. 34 establishes financial reporting standards for state and local governments, including states, cities, villages and special purpose governments such as school districts and public utilities. This new standard has minor impacts upon the financial reporting and accounting performed by the San Diego County Water Authority. As a result, GASB No. 34 required changes to this year's Financial Statements and a restatement of the June 30, 1999 Financial Statements as follows:

1. The format and the title of the basic Balance Sheet have been changed to Statement of Net Assets. The format of information has been changed from a listing of the Assets, Liabilities and Equity to a listing of the Total Assets less Liabilities arriving at the Net Assets. The category "Equity" has been changed to "Net Assets." However, they retain the same categorization of balances.
2. The other major change is the treatment for Contributed Capital from the member agencies for reimbursement of construction expenditures on specific assets for their use. Previously, these amounts were added directly to equity in accordance with accounting standards and they are now reported on the Statement of Revenues, Expenses and Changes in Net Assets in the line entitled "Capital Contributions."

This section of the San Diego County Water Authority's Comprehensive Annual Financial Report presents our discussion and analysis of the Authority's financial performance during the Fiscal Year ended June 30, 2000. Please read it in conjunction with the Transmittal Letter at the front of this report and the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

In the Fiscal Year ended June 30, 2000, the Authority's total assets and total net assets increased by approximately \$60 million, which are directly related to the \$60 million increase in Net Assets as reported on the Statement of Revenues, Expenses and Net Assets. The value of non-current assets increased by approximately \$50 million which is made up of an increase of \$46 million in Property, Plant and Equipment (which reports accomplishments in the Capital Improvement Program) and a \$4 million increase in Restricted Cash and Investments. Accounts receivable have increased \$10 million because of increased water sales in May and June, 2000, and the accounts payable and accrued liabilities have increased by \$13 million primarily because of increased water purchases and accrued liabilities in the Capital Improvement Program.

Total revenues for Fiscal Year ended June 30, 2000 were \$338.1 million which included total operating revenues of \$262.1 million and non-operating revenues, including capacity charges, standby charges, taxes and interest income of \$76 million.

San Diego County Water Authority's Net Assets

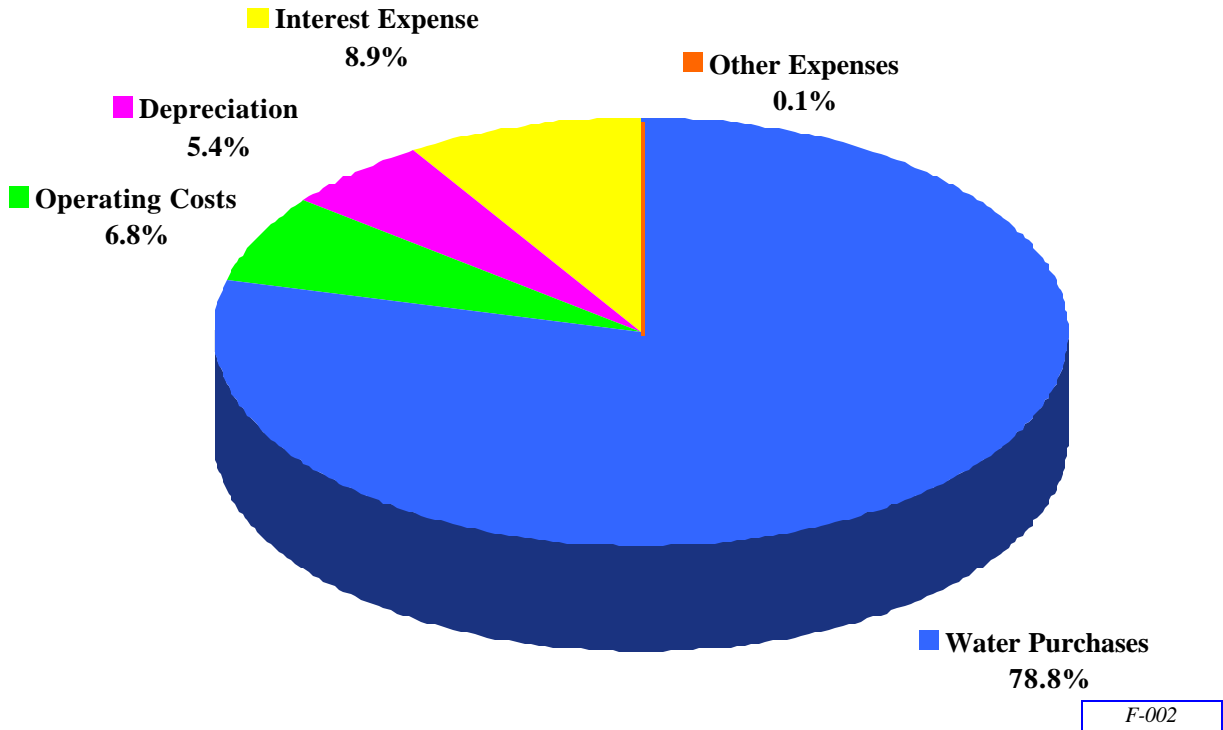
| | <u>June 30, 2000</u> | <u>June 30, 1999</u> |
|---|----------------------|----------------------|
| Current and Other Assets | \$ 405.5 | \$ 391.6 |
| Capital Assets | <u>848.8</u> | <u>803.1</u> |
| Total Assets | \$ 1,254.3 | \$ 1,194.7 |
| | | |
| Long-Term Debt Outstanding | 596.7 | 613.8 |
| Other Liabilities | <u>62.2</u> | <u>48.3</u> |
| Total Liabilities | \$ 658.9 | \$ 662.1 |
| | | |
| Invested in capital asset, net of related debt | \$ 435.1 | \$ 401.0 |
| Restricted | 152.0 | 110.3 |
| Unrestricted | <u>8.3</u> | <u>21.3</u> |
| Total Net Assets | \$ 595.4 | \$ 532.6 |

(in millions)

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Water Revenues exceeded the original budget by \$43 million due to significantly increased water sales. The Fiscal Year 1999-2000 Adopted Budget anticipated 474,000 acre-feet of water to be sold in comparison to the 589,000 acre-feet of water sold during the year, for an increase of 115,000 acre-feet of water sold. This increase in water sales was caused by population growth and two consecutive years in which the local rainfall was below normal averages. As a result, there was little or no run-off of water into local reservoirs, therefore the Authority's member agencies were required to purchase more water to meet local water demands. Non-operating revenues increased by approximately \$9.7 million dollars, primarily caused by a \$5 million increase in the Infrastructure Access Charge, \$4 million increase in interest income and \$.7 million increase in taxes.

**Functional Expenses for
Fiscal Year Ended June 30, 2000**

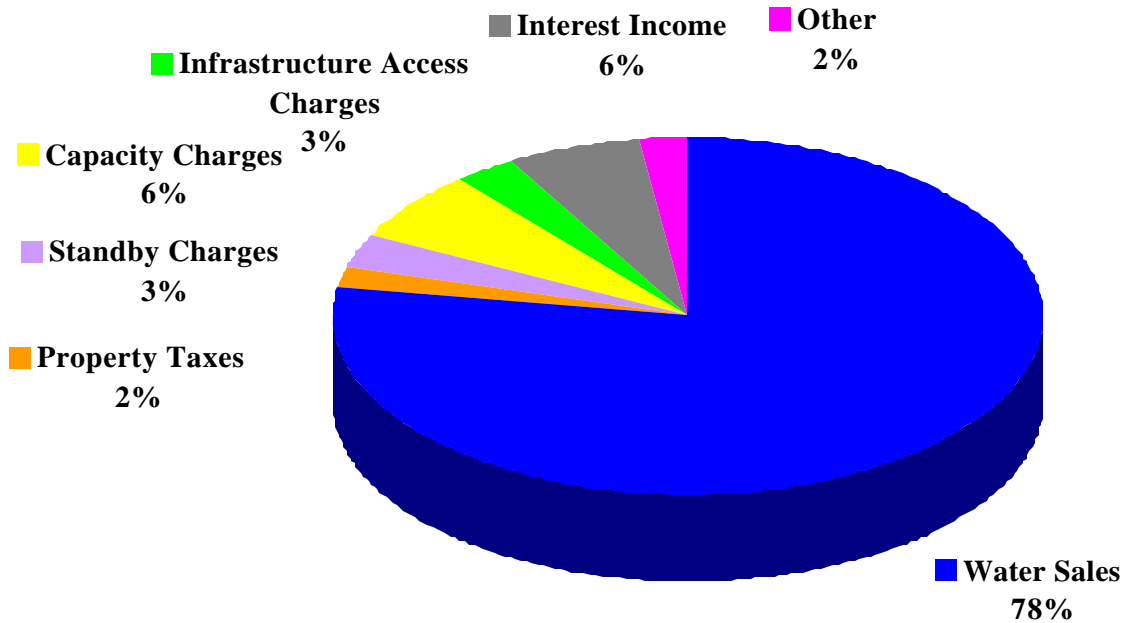


Total operating expenses for Fiscal Year ended June 30, 2000 were \$275.3 million. Water purchases were \$217.0 million or 78.8%, operating expenses were \$18.7 million or 6.8%, other expenses were \$.2 million or less than 1%, depreciation and amortization expenses were \$14.9 million or 5.4% and the interest expense on the Authority's outstanding bonded debt was \$24.5 million or 8.9% of the Authority's total cost of sales.

BUDGET ANALYSIS AND VARIANCES

The Authority's final Fiscal Year 1999-2000 revenue budget of \$331.4 million was exceeded by \$6.7 million, primarily because Capacity Charge Revenues exceeded the budget by \$10.2 million, interest income was \$4.4 million greater than the budget and taxes exceeded the budget by \$.9 million. The increased revenues were partially offset by the fact that Capital Reimbursements were \$8.8 million under budget.

**Sources of Revenue for
Fiscal Year Ended June 30, 2000**



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The Authority's Fiscal Year 1999-2000 expenditures were \$338.8 million, which was \$51.5 million, or 13.2 percent under the final approved expenditure budget of \$390.3 million. The expenditures for the Capital Budget were \$50.5 million, which was \$48.8 million or 49% under budget. The reduced spending was caused by delays encountered in the acquisition of key real estate, environmental issues, delays caused by extended time frames for review of Emergency Storage Project mitigation issues and shortfalls in regular and temporary staffing. Debt service costs were \$.6 million under budget because of lower than forecasted short-term interest rates. Operating expenditures were \$19.3 million, with a favorable variance of \$2.1 million or 9.7% under budget. The favorable budget variance was caused by salary savings from vacant and unfilled positions and under-spending in outside services for professional and technical services.

CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAM

The Authority's total capitalized property, plant and equipment is \$781.9 million net of \$95.9 million accumulated depreciation or a net book value of \$686.0 million. Included in the total reported on the Statement of Net Assets is \$162.8 million of capital projects in various stages of completion in construction in process. The Authority has an approved \$1.1 billion Capital Improvement Program which includes \$771 million for the Emergency Storage Project (ESP). The ESP will create 90,100 acre feet of storage and will provide supporting distribution facilities to supplement emergency water supplies available to the region in case of a prolonged interruption of the imported water supply into the County. The design and construction of the ESP is scheduled to take place between 1999 and 2011. The balances in construction in process are forecast to increase significantly in the future and the various projects will be capitalized, as

they are placed into service. This major capital program is being financed by the issuance of long and short-term debt and current revenues of capacity charges and standby charges that are deposited into the Pay-As-You-Go Fund.

INFRASTRUCTURE

The Authority maintains and repairs over 266 miles of pipelines, ranging in size from 36 inches to 108 inches in diameter, right-of-ways, roads, mechanical equipment, buildings and grounds, including over 1,600 line structures and 117 metering and control buildings. A preventative maintenance program, which consists of performing inspections and maintenance tasks, is performed on a regularly scheduled basis. The Authority has an Aqueduct Protection Program as part of the Capital Improvement Program, which is designed to protect and ensure structural integrity, perform pipeline condition assessments, and extend the service life of the existing pipelines. This program includes internal inspection schedules and corrosion monitoring on the pipelines.

LONG-TERM DEBT

At fiscal year end, the Authority had \$596 million, in bonds, notes and commercial paper outstanding, a decrease of \$18 million (or 2.9 percent) over last year. More detailed information about the Authority's long-term debt is presented in Note 4 to the Financial Statements. In February 2000, Moody's Investor's Service issued a report which confirmed the Authority's Aa3 rating with a stable outlook for the four outstanding issues of the Water Revenue Certificates of Participation. As noted in Note 4 to the Financial Statements, the Authority was in compliance with its bond covenants including meeting the debt service ratio requirement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Civilian employment, the number of San Diegans working, averaged 1,297,000 during 1999, the highest ever reported for the County. The number is forecast to rise by approximately 1.7 percent in 2000 to 1,318,900.
- Unemployment fell to an annual average of 42,400 in 1999 or 3.2% and the rate is forecast to rise slightly in 2000 to 3.3%. California's unemployment rate for 1999 was 5.3%.
- The population growth rate is forecast to increase 2.0% in 1999 and an additional 1.9% in 2000.
- Inflation as measured by the consumer price index for all consumers was 3.1% in 1999 and 3.7% in 2000.
- The Authority's service area assessed valuation increased from \$155 billion to \$172 billion in 1999, an 11% increase, and increased to \$178 billion in 2000, an increase of 4%.
- There were 12,435 new housing units constructed in 1998 and estimates of 16,600 units in 1999.

- Single family construction showed significant gains in the last two years rising to an estimated 9,700 units in 1999, the highest level in a decade. Another 9,000 units are projected for 2000.
- Local rainfall the last two years has been below normal averages.
- Projected water sales are 531,000 acre feet for Fiscal Year 2000-2001.

These indicators were taken into account when adopting the Authority's Fiscal Year 2000-2001 Budget. Total revenues are estimated to be \$331 million, with Water Sales Revenue of \$250 million accounting for 75.5% of this amount. Tax revenues, Water Standby Availability Charges and the Infrastructure Access Charges will remain at their current levels of \$6.7, \$10.6 and \$9.8 million, respectively. Capacity Charges are estimated to continue at their very high two-year level of \$22 million based upon new housing and single family unit starts for 2000. There will be a withdrawal of \$78 million from the CIP Bond Construction Fund to pay for payments on the Capital Improvement Program. These charges collect revenue from new development to pay capital costs associated with the increased demand that new development places upon the water distribution system. They depend heavily on the strength of the local economy. The Authority will use these revenues to finance the long-term Capital Improvement Program.

The Fiscal Year 2000-2001 expenditures are budgeted at \$375.5 million, an increase of \$17.4 million or 4.9%. The Operating Budget increased from \$21.4 million to \$23.7 million primarily due to increased professional and technical services activities required to address the Board of Director's priorities for water procurement, quality and management, environmental and conservation efforts, and infrastructure, as well as increases in the cost of living for all employees based upon newly approved three-year labor agreements. Water purchases are forecast to increase by \$20 million based upon forecast increased Water Sales, while the authorized expenditures on the Capital Improvement Program will decrease from \$99.4 million to \$91.4 million, a reduction of \$8 million.

If these budget projections are realized, the Authority's fund balances will decrease from approximately \$340 million to \$282 million, primarily caused by a decrease of \$74 million from the CIP Bond Construction Fund for payments made on the Capital Improvement Program. The Operating Fund will increase by \$8 million caused by the net increase in Water Revenues and increased Taxes, Interest Income and Infrastructure Access Charges. The Pay-As-You-Go Fund will increase by \$18 million caused by a \$32 million deposit from Capacity Charge and Standby Charge collections, Interest Income of \$6 million and transfers from the Operating Fund of \$2 million netted against the \$22 million payment for debt service.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Board, the Authority's member agencies, taxpayers, creditors and investors with a general overview of the San Diego County Water Authority's accountability for the money it manages. If you have questions about this report or need additional financial information, contact the San Diego County Water Authority's Finance Department at 3211 Fifth Avenue, San Diego, California 92103.

SAN DIEGO COUNTY WATER AUTHORITY
Statements of Net Assets for
Fiscal Years Ended June 30, 2000 and 1999

| | <u>2000</u> | <u>1999</u> |
|---|-----------------------|-----------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents (note 2) | \$ 39,249,000 | \$ 40,664,000 |
| Accounts receivable | 52,580,000 | 42,448,000 |
| Interest receivable | 5,206,000 | 4,589,000 |
| Taxes receivable | 1,710,000 | 1,724,000 |
| Inventory | 1,225,000 | 572,000 |
| Total current assets | <u>99,970,000</u> | <u>89,997,000</u> |
| Noncurrent assets: | | |
| Investments (note 2) | 52,826,000 | 40,908,000 |
| Restricted cash and cash equivalents (note 2) | 125,911,000 | 182,460,000 |
| Restricted investments (note 2) | 121,612,000 | 72,671,000 |
| Property, plant and equipment, net (note 3) | 848,863,000 | 803,100,000 |
| Unamortized bond issuance costs (note 4) | 5,111,000 | 5,520,000 |
| Total noncurrent assets | <u>1,154,323,000</u> | <u>1,104,659,000</u> |
| Total assets | <u>1,254,293,000</u> | <u>1,194,656,000</u> |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 53,279,000 | 40,586,000 |
| Interest payable | 3,749,000 | 3,984,000 |
| Member deposits | 2,902,000 | 1,588,000 |
| Current portion of long term debt (note 4) | 91,555,000 | 88,100,000 |
| Total current liabilities | <u>151,485,000</u> | <u>134,258,000</u> |
| Noncurrent liabilities: | | |
| Compensated absences (note 4) | 2,289,000 | 2,132,000 |
| Long-term debt (note 4) | 505,103,000 | 525,674,000 |
| Total noncurrent liabilities | <u>507,392,000</u> | <u>527,806,000</u> |
| Total liabilities | <u>658,877,000</u> | <u>662,064,000</u> |
| Net assets (note 7): | | |
| Invested in capital assets, net of related debt | 435,100,000 | 400,943,000 |
| Restricted | 134,823,000 | 110,327,000 |
| Unrestricted | 25,493,000 | 21,322,000 |
| Total net assets | <u>\$ 595,416,000</u> | <u>\$ 532,592,000</u> |

See accompanying notes to financial statements.

SAN DIEGO COUNTY WATER AUTHORITY
Statements of Revenues, Expenses, and Changes in Net Assets for
Fiscal Years Ended June 30, 2000 and 1999

| | <u>2000</u> | <u>1999</u> |
|---|-----------------------|-----------------------|
| Operating revenues: | | |
| Water sales | \$ 262,081,000 | \$ 217,796,000 |
| Total operating revenues | 262,081,000 | 217,796,000 |
| Operating expenses: | | |
| Cost of sales | 217,000,000 | 179,332,000 |
| Depreciation and amortization | 14,870,000 | 12,786,000 |
| Operations and maintenance | 6,442,000 | 6,499,000 |
| Planning | 2,188,000 | 2,267,000 |
| General and administrative | 10,075,000 | 8,359,000 |
| Total operating expenses | 250,575,000 | 209,243,000 |
| Operating income | 11,506,000 | 8,553,000 |
| Nonoperating revenues (expenses): | | |
| Property taxes and in-lieu charges | 6,665,000 | 6,125,000 |
| Infrastructure access charges | 9,626,000 | 4,789,000 |
| Investment income | 19,823,000 | 15,534,000 |
| Interest expense | (24,492,000) | (19,304,000) |
| Other expenses | (242,000) | (525,000) |
| Total nonoperating revenues (expenses) | 11,380,000 | 6,619,000 |
| Income before other revenues, expenses, gains, losses, and transfers | 22,886,000 | 15,172,000 |
| Capital contributions | 39,938,000 | 34,908,000 |
| Increase (decrease) in net assets | 62,824,000 | 50,080,000 |
| Net assets at beginning of year, as restated (note 6) | 532,592,000 | 482,512,000 |
| Net assets at end of year | <u>\$ 595,416,000</u> | <u>\$ 532,592,000</u> |

See accompanying notes to financial statements.

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SAN DIEGO COUNTY WATER AUTHORITY
Statements of Cash Flows for
Fiscal Years Ended June 30, 2000 and 1999

| | <u>2000</u> | <u>1999</u> |
|--|------------------------|-----------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 263,111,000 | \$ 237,741,000 |
| Cash payments to employees for services | (16,099,000) | (17,048,000) |
| Cash payments to suppliers for goods and services | (207,443,000) | (192,612,000) |
| Net cash provided by (used for) operating activities | <u>39,569,000</u> | <u>28,081,000</u> |
| Cash flows from noncapital financing activities: | | |
| Property taxes and in-lieu charges received | <u>6,457,000</u> | <u>6,125,000</u> |
| Net cash provided by (used for) noncapital financing activities | 6,457,000 | 6,125,000 |
| Cash flows from capital and related financing activities: | | |
| Cash paid for acquisition and construction of capital assets | (52,190,000) | (44,599,000) |
| Contributions and capital related revenues received from other governments | 39,938,000 | 34,908,000 |
| Proceeds of debt issuance | 70,000,000 | 248,798,000 |
| Principal paid on debt | (88,100,000) | (86,720,000) |
| Interest paid on debt | <u>(31,985,000)</u> | <u>(29,373,000)</u> |
| Net cash provided by (used for) capital and related financing activities | (62,337,000) | 123,014,000 |
| Cash flows from investing activities: | | |
| Purchase of investments | (394,373,000) | (120,357,000) |
| Proceeds from sale and maturities of investments | 333,514,000 | 132,181,000 |
| Interest received on investments | 19,206,000 | 15,534,000 |
| Net cash provided by (used for) investing activities | <u>(41,653,000)</u> | <u>27,358,000</u> |
| Net increase (decrease) in cash and cash equivalents | (57,964,000) | 184,578,000 |
| Cash and cash equivalents at beginning of year | <u>223,124,000</u> | <u>38,546,000</u> |
| Cash and cash equivalents at end of year | <u>\$ (57,964,000)</u> | <u>\$ 184,578,000</u> |

See accompanying notes to financial statements.

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Statements of Cash Flows for
Fiscal Years Ended June 30, 2000 and 1999 (cont'd)

**Reconciliation of operating income to net cash
provided by (used for) operating activities:**

| | | |
|--|----------------------|----------------------|
| Operating income (loss) | \$ 11,506,000 | \$ 8,553,000 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization of bond issuance costs | 14,870,000 | 12,786,000 |
| Infrastructure access charges | 9,626,000 | 4,789,000 |
| (Increase) decrease in accounts receivable | (9,910,000) | (15,156,000) |
| (Increase) decrease in inventory | (653,000) | 6,746,000 |
| (Increase) decrease in other assets | (34,000) | (202,000) |
| Increase (decrease) in accounts payable and accrued liabilities | 12,693,000 | 9,005,000 |
| Increase (decrease) in member deposits | 1,314,000 | 1,333,000 |
| Increase (decrease) in compensated absences | 157,000 | 227,000 |
| Net cash used in operating activities | <u>\$ 39,569,000</u> | <u>\$ 28,081,000</u> |

Noncash capital financing and investing activities:

| | | |
|---|-------------------|-------------------|
| Amortization of discounts, premiums, and deferred refunding charge | <u>\$ 984,000</u> | <u>\$ 908,000</u> |
|---|-------------------|-------------------|

Supplemental disclosures:

| | | |
|--|----------------------|----------------------|
| Cash paid during the year for interest | <u>\$ 31,985,000</u> | <u>\$ 29,373,000</u> |
| Interest capitalized during the year | <u>\$ 8,000,000</u> | <u>\$ 10,400,000</u> |

See accompanying notes to financial statements.

| |
|---------------------|
| F-006- Continued |
|---------------------|

SAN DIEGO COUNTY WATER AUTHORITY
Notes to Financial Statements for
Fiscal Years Ended June 30, 2000 and 1999

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The San Diego County Water Authority (the “Authority”) was organized on June 9, 1944 under the County Water Authority Act (The “Act”) for the primary purpose of providing a supplemental supply of imported water to its member agencies for domestic, municipal and agricultural uses. The Authority consists of 24 member agencies that are each represented by at least one person on the Authority’s Board of Directors. The Authority is a member of the Metropolitan Water District of Southern California (MWD) and historically, the Authority has purchased from MWD all the water it requires to meet the demands of the member agencies. The Authority is currently in the process of seeking alternative assured sources of water in addition to the MWD. During 1999, the Authority executed the Imperial Irrigation District Water Transfer Agreement that will provide an alternative source of water.

The Metropolitan Water District Act provides a preferential right for the purchase of water by each of its constituent agencies. This preferential right is calculated using a formula, and based upon such formula, the Authority has a statutory preferential right to approximately 12% of MWD’s total supply. The policy has never been applied to limit the Authority’s purchases. In June 1995, MWD adopted an Integrated Resource Plan designed to meet 100% of its member agency water needs by a mix of imported water and development of additional local resources by its member agencies.

Basis of Accounting

The Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The Authority utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

The Authority applies all applicable GASB pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB’s) of the Committee on Accounting Procedure.

Property Taxes and In-Lieu Charges

The Authority is authorized under the Act to levy taxes on all taxable property within its boundaries for the purposes of carrying on its operations and paying its obligations, subject to certain limitations in the Act, the Revenue and Taxation Code and the California Constitution. A portion of the taxes is levied to meet the Authority's debt service requirements on its general obligation bonds.

Property taxes are levied annually by the Authority's Board of Directors as of July 1, using a lien date of March 1, and are payable by property owners in two equal installments, which are due by December 10th and April 10th. The taxes levied are billed and collected by the County of San Diego and are remitted to the Authority throughout the year.

Member agencies of the Authority may elect to pay in-lieu charges instead of the tax levy. Included in the accompanying Statements of Revenues, Expenses and Changes in Net Assets for the Fiscal Years Ended June 30, 2000 and 1999 are in-lieu charges of \$890,000 and \$793,000, respectively.

Inventories

Inventories consist primarily of water in storage and are stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment

Property, plant, and equipment is valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are valued at their estimated fair market value on the date received. The Authority capitalizes all assets with a historical cost of at least \$1,000 and a useful life of at least three years. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is computed utilizing the straight-line method over the following estimated useful lives:

| | |
|--------------------|----------------|
| Water systems | 10 to 75 years |
| Buildings | 40 years |
| Other equipment | 5 to 15 years |
| Automobiles/trucks | 5 to 7 years |

Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation benefits. Earned vacation pay to a maximum of 36 days (50 days for management) and 25% of accumulated sick leave may be paid upon termination of employment. Upon retirement the Authority pays 100% of sick leave up to 125 days and all earned vacation. Sick leave hours

accrue at the rate of one day per month and employees may elect to receive cash for accumulated sick leave at the rate of two for one after accumulating 480 hours.

All accumulated vacation and vested sick leave pay is recorded as an expense and a liability at the time the benefit is earned.

Capitalized Interest

The Authority capitalizes interest on self-constructed assets during the period of construction. The amount of interest cost capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted to finance acquisition of specified assets is all interest cost of the borrowings less any interest earned on related interest-bearing investments acquired with such unexpended proceeds from the date of the borrowings until the assets are substantially complete and are ready for their intended use. Interest cost of tax-exempt borrowings is eligible for capitalization on other qualifying assets of the Authority when the specified qualifying assets are no longer eligible for interest capitalization. Interest cost capitalized during the year ended June 30, 2000 and 1999 was \$8,000,000 and \$10,400,000, respectively.

Revenue Policies

The principal portion of the Authority's revenues is provided by sales of water. Water is delivered to member agencies on demand and revenue is recognized at the time of delivery. The Authority also has two other separate revenue sources as part of its Long Range Financing Plan to fund the Capital Improvement Program. A water availability standby charge was put into effect in fiscal year 1990 and generated revenue of \$10,830,000 for the fiscal year ended June 30, 2000 and \$10,523,000 in 1999. In fiscal year 1991, the Authority implemented a capacity charge on all new water meters purchased within the boundaries of the Authority, which generated revenue of \$21,500,000 for the fiscal year ended June 30, 2000 and \$21,260,000 for the fiscal year ended June 30, 1999.

Included in restricted cash, cash equivalents and investments at June 30, 2000 and 1999 is \$116,026,000 and \$73,490,000, identified in the pay-as-you-go account. This account is used for future cash expenditures for capital improvement projects and consists of water availability standby and capacity charges.

On June 11, 1998, the Infrastructure Access Charge (IAC) was adopted by the Board of Directors as an additional source of fixed revenue to provide better coverage of the Authority's projected fixed expenditures. The IAC is levied on all retail water meters within the Authority's service area. Beginning on January 1, 1999, the IAC has been set at \$1.00 per equivalent meter per month. The fixed charge is levied against each member agency for the purpose of maintaining a minimum ratio of projected fixed revenue to projected fixed expenditures of 25% in any future fiscal year. The IAC generated revenues of \$9,626,000 for the fiscal year ended June 30, 2000 and \$4,789,000 for the fiscal year ended June 30, 1999. The IAC will be adjusted each year as part of the regular rate-setting process.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less.

Investments

Investments are reported in the accompanying Statement of Net Assets at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during the fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Classification of Revenues

Operating revenues consist of sales of water, including hydroelectric sales. *Nonoperating revenues* consist of property taxes, in-lieu charges, investment income, and special charges that can be used for *either* operating or capital purposes.

Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

Budgets and Budgetary Accounting

Annual budgets adopted by the Board of Directors provide for operations, debt service and capital expenditures of the Authority. Budgetary controls are set by the Board of Directors. The Board of Directors adopts an operating budget at the beginning of the Authority's fiscal year. The legally adopted budget requires that expenditures not exceed appropriations in total for the Authority. The Board of Directors may make appropriation adjustments to the budget during the year as deemed necessary. The Authority adhered to the prescribed budget as discussed above for the years ended June 30, 2000 and 1999.

NOTE 2. CASH AND INVESTMENTS

Cash and investments held by the Authority consisted of the following:

| | <u>2000</u> | <u>1999</u> |
|--------------------|-----------------------|-----------------------|
| Petty Cash | \$ 1,000 | \$ 1,000 |
| Deposits | 33,862,000 | 23,209,000 |
| Investments | <u>305,735,000</u> | <u>313,493,000</u> |
| | <u>\$ 339,598,000</u> | <u>\$ 336,703,000</u> |

Authorized Investments

Under provisions of the Authority’s investment policy and Section 53601 of the California Government Code, the Authority may invest in the following types of investments:

| <u>Permitted Investments</u> | <u>Restrictions</u> |
|-------------------------------------|---|
| Local Agency Investment Fund | A maximum of \$30 million and a maximum of \$175 million of bond proceeds. |
| Bankers Acceptances | Rated a minimum of “A”, limited to 20% of portfolio, and a maximum maturity of one year. |
| Treasury Securities | A minimum of 30% of portfolio. |
| Repurchase Agreements | Rated a minimum of “A”, maximum of 20% of portfolio, and a maximum maturity of one year. |
| Reverse Repurchase Agreements | Maximum maturity of 30 days. |
| Certificates of Deposit | Minimum rating of “A”, maximum of \$100,000 in any FDIC insured institution, and maximum portfolio is limited to 15% with a maximum maturity of two years. |
| Negotiable Certificates of Deposit | Minimum rating of “AA”. |
| Commercial Paper | Minimum rating of “A”, maximum of 10% of total issue, maximum maturity of 180 days, maximum portfolio of 15% and single-issuer holding of no more than 5%. |
| Medium Term Notes | Minimum rating of “A”, maximum of 15% of portfolio, maximum maturity of two years for “A” and “AA” and five years for “AAA” notes. |
| Agency Securities | Maximum maturity of five years and maximum of 55% of portfolio. |
| Money Market/Mutual Funds | Minimum total assets of \$500 million. Must have highest rating by two of three largest nationally recognized rating services. Maximum of 15% of portfolio. |

Under the California Government Code, a financial institution is required to secure deposits made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. 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 institution to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Deposits of governmental agencies are classified in three categories to give an indication of the level of custodial risk assumed by the entity. Category 1 includes deposits that are insured or collateralized with securities held by the Authority or its agent in the Authority’s name.

Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 2 also includes deposits collateralized by an interest in an undivided collateral pool held by an authorized agent or depository and subject to certain regulatory requirements under state law. Category 3 includes deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name. Category 3 also includes any uncollateralized deposits.

At June 30, 2000, deposits are categorized as follows:

| Form of Deposit | Category | | | Bank Balance | Carrying Amount |
|---------------------------|-------------------|----------------------|-------------|----------------------|----------------------|
| | 1 | 2 | 3 | | |
| Demand Deposits | \$ 106,000 | \$ 13,143,000 | \$ - | \$ 13,249,000 | \$ 12,408,000 |
| Bank Investment Agreement | 100,000 | 21,351,000 | - | 21,454,000 | 21,454,000 |
| TOTALS | \$ 206,000 | \$ 34,494,000 | \$ - | \$ 34,703,000 | \$ 33,862,000 |

F-007

At June 30, 1999, deposits are categorized as follows:

| Form of Deposit | Category | | | Bank Balance | Carrying Amount |
|---------------------------|-------------------|----------------------|-------------|----------------------|----------------------|
| | 1 | 2 | 3 | | |
| Demand Deposits | \$ 106,000 | \$ 1,250,000 | \$ - | \$ 1,356,000 | \$ 1,763,000 |
| Bank Investment Agreement | 100,000 | 21,346,000 | - | 21,446,000 | 21,446,000 |
| TOTALS | \$ 206,000 | \$ 22,596,000 | \$ - | \$ 22,802,000 | \$ 23,209,000 |

F-008

Investments of governmental agencies are classified into three categories to give an indication of the custodial risk assumed by the entity. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or the Authority's custodial agent (which must be a different institution other than the party through which the Authority purchased the securities) in the Authority's name. Investments held "in the Authority's name" include securities held in a separate custodial or fiduciary account and identified as owned by the Authority in the custodian's internal accounting records. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer's agent in the Authority's name (or by the trust department of the dealer if the dealer was a financial institution and other department of the institution that purchased the security of the Authority). Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer's agent, but not in the Authority's name. Category 3 also includes all securities held by the broker-dealer agent of the Authority (the party that purchased the security of the Authority) regardless of whether or not the securities are being held in the Authority's name.

Investments are categorized as follows at June 30, 2000:

| Form of Investment | Category | | | Carrying Amount |
|---------------------------|-----------------------|-------------|-------------|-----------------------|
| | 1 | 2 | 3 | |
| Federal agency securities | \$ 75,178,000 | \$ - | \$ - | \$ 75,178,000 |
| U.S. treasury notes | 61,272,000 | - | - | 61,272,000 |
| Medium term notes | 33,489,000 | - | - | 33,489,000 |
| Megotiable CD's | 4,500,000 | - | - | 4,500,000 |
| TOTALS | \$ 174,439,000 | \$ - | \$ - | \$ 174,439,000 |

Investment not subject to categorization

| | |
|--------------------------------|-----------------------|
| Local Agency Investment Fund | 115,520,000 |
| Guaranteed investment contract | 15,392,000 |
| Mutual Funds | 384,000 |
| TOTAL INVESTMENTS | \$ 305,735,000 |

F-009

Investments are categorized as follows at June 30, 1999:

| Form of Investment | Category | | | Carrying Amount |
|---------------------------|-----------------------|-------------|-------------|-----------------------|
| | 1 | 2 | 3 | |
| Federal agency securities | \$ 26,099,000 | \$ - | \$ - | \$ 26,099,000 |
| U.S. treasury notes | 61,563,000 | - | - | 61,563,000 |
| Commercial paper | 19,010,000 | - | - | 19,010,000 |
| Medium term notes | 9,915,000 | - | - | 9,915,000 |
| Megotiable CD's | 16,002,000 | - | - | 16,002,000 |
| TOTALS | \$ 132,589,000 | \$ - | \$ - | \$ 132,589,000 |

Investment not subject to categorization

| | |
|---|-----------------------|
| Local Agency Investment Fund | 163,627,000 |
| Private export funding corporation deposits | 931,000 |
| Mutual Funds | 16,346,000 |
| TOTAL INVESTMENTS | \$ 313,493,000 |

The carrying amount of all investments reflected in the above table is at fair value.

F-010

The Authority 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 Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. An

advisory board has been established to monitor the LAIF's compliance with regulations and investment alternatives established by the State.

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Capital asset activity for the year ended June 30, 2000 is as follows:

| | Balance at June 30, 1999 | Additions | Deletions | Balance June 30, 2000 |
|---|-------------------------------------|----------------------|------------------------|----------------------------------|
| Water systems | \$ 718,631,000 | \$ 15,279,000 | \$ (103,000) | \$ 733,807,000 |
| Buildings | 30,968,000 | 605,000 | - | 31,573,000 |
| Automobiles and equipment | 13,951,000 | 2,572,000 | (35,000) | 16,488,000 |
| Total cost of depreciable assets | <u>763,550,000</u> | <u>18,456,000</u> | <u>(138,000)</u> | <u>781,868,000</u> |
| Less accumulated depreciation: | | | | |
| Water systems | (67,283,000) | (10,797,000) | 40,000 | (78,040,000) |
| Buildings | (7,342,000) | (847,000) | - | (8,189,000) |
| Automobiles and equipment | (6,978,000) | (2,718,000) | 33,000 | (9,663,000) |
| Total accumulated depreciation | <u>(81,603,000)</u> | <u>(14,362,000)</u> | <u>73,000</u> | <u>(95,892,000)</u> |
| Net depreciable assets | <u>681,947,000</u> | <u>4,094,000</u> | <u>(65,000)</u> | <u>685,976,000</u> |
| Capital assets not depreciated: | | | | |
| Construction in progress | <u>121,153,000</u> | <u>58,532,000</u> | <u>(16,798,000)</u> | <u>162,887,000</u> |
| Capital assets, net | <u>\$ 803,100,000</u> | <u>\$ 62,626,000</u> | <u>\$ (16,863,000)</u> | <u>\$ 848,863,000</u> |

Depreciation expense for the year was \$14,362,000.

F-011

Capital asset activity for the year ended June 30, 1999 is as follows:

| | Balance at June 30, 1998 | Additions | Deletions | Balance June 30, 1999 |
|---|-------------------------------------|-----------------------|-------------------------|----------------------------------|
| Water systems | \$ 517,009,000 | \$ 202,648,000 | \$ (1,026,000) | \$ 718,631,000 |
| Buildings | 30,349,000 | 765,000 | (146,000) | 30,968,000 |
| Automobiles and equipment | 13,355,000 | 1,682,000 | (1,086,000) | 13,951,000 |
| Total cost of depreciable assets | <u>560,713,000</u> | <u>205,095,000</u> | <u>(2,258,000)</u> | <u>763,550,000</u> |
| Less accumulated depreciation: | | | | |
| Water systems | (58,771,000) | (8,990,000) | 478,000 | (67,283,000) |
| Buildings | (6,551,000) | (844,000) | 53,000 | (7,342,000) |
| Automobiles and equipment | (5,602,000) | (2,454,000) | 1,078,000 | (6,978,000) |
| Total accumulated depreciation | <u>(70,924,000)</u> | <u>(12,288,000)</u> | <u>1,609,000</u> | <u>(81,603,000)</u> |
| Net depreciable assets | <u>489,789,000</u> | <u>192,807,000</u> | <u>(649,000)</u> | <u>681,947,000</u> |
| Capital assets not depreciated: | | | | |
| Construction in progress | <u>271,319,000</u> | <u>43,179,000</u> | <u>(193,345,000)</u> | <u>121,153,000</u> |
| Capital assets, net | <u>\$ 761,108,000</u> | <u>\$ 235,986,000</u> | <u>\$ (193,994,000)</u> | <u>\$ 803,100,000</u> |

Depreciation expense for the year was \$12,288,000.

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NOTE 4. LONG TERM DEBT

Long-term liabilities for the year ended June 30, 2000 are as follows:

| | <u>Balance at June 30, 1999</u> | <u>Additions/ Amortizations</u> | <u>Principal Repayments</u> | <u>Balance June 30, 2000</u> | <u>Amounts Due Within One Year</u> |
|------------------------------------|-------------------------------------|-------------------------------------|---------------------------------|----------------------------------|--|
| 1998A Water | | | | | |
| Revenue COP's | \$ 178,839,000 | \$ 62,000 | \$ - | \$ 178,901,000 | \$ - |
| 1997A Water | | | | | |
| Revenue COP's | 149,211,000 | 922,000 | (635,000) | 149,498,000 | 175,000 |
| 1993 Water | | | | | |
| Revenue COP's | 106,090,000 | - | (5,745,000) | 100,345,000 | 8,990,000 |
| 1991 Water | | | | | |
| Revenue COP's | 101,895,000 | - | (10,340,000) | 91,555,000 | 10,950,000 |
| 1966 Waterworks | | | | | |
| Bonds | 7,545,000 | - | (1,380,000) | 6,165,000 | 1,440,000 |
| Commercial Paper | <u>70,000,000</u> | <u>70,000,000</u> | <u>(70,000,000)</u> | <u>70,000,000</u> | <u>70,000,000</u> |
| Total long-term debt | <u>613,580,000</u> | <u>70,984,000</u> | <u>(88,100,000)</u> | <u>596,464,000</u> | <u>91,555,000</u> |
| Other Liabilities | | | | | |
| Compensated absences | 2,132,000 | 157,000 | - | 2,289,000 | - |
| Arbitrage rebate | 194,000 | - | - | 194,000 | - |
| Total long-term liabilities | <u>\$ 615,906,000</u> | <u>\$ 71,141,000</u> | <u>\$ (88,100,000)</u> | <u>\$ 598,947,000</u> | <u>\$ 91,555,000</u> |

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Long-term liabilities for the year ended June 30, 1999 are as follows:

| | <u>Balance at June 30, 1999</u> | <u>Additions/ Amortizations</u> | <u>Principal Repayments</u> | <u>Balance June 30, 2000</u> | <u>Amounts Due Within One Year</u> |
|------------------------------------|-------------------------------------|-------------------------------------|---------------------------------|----------------------------------|--|
| 1998A Water | | | | | |
| Revenue COP's | \$ - | \$ 178,839,000 | \$ - | \$ 178,839,000 | \$ - |
| 1997A Water | | | | | |
| Revenue COP's | 148,489,000 | 867,000 | (145,000) | 149,211,000 | 635,000 |
| 1993 Water | | | | | |
| Revenue COP's | 111,570,000 | - | (5,480,000) | 106,090,000 | 5,745,000 |
| 1991 Water | | | | | |
| Revenue COP's | 111,670,000 | - | (9,775,000) | 101,895,000 | 10,340,000 |
| 1966 Waterworks | | | | | |
| Bonds | 8,865,000 | - | (1,320,000) | 7,545,000 | 1,380,000 |
| Commercial Paper | <u>70,000,000</u> | <u>70,000,000</u> | <u>(70,000,000)</u> | <u>70,000,000</u> | <u>70,000,000</u> |
| Total long-term debt | <u>450,594,000</u> | <u>249,706,000</u> | <u>(86,720,000)</u> | <u>613,580,000</u> | <u>88,100,000</u> |
| Other Liabilities | | | | | |
| Compensated absences | 1,905,000 | 227,000 | - | 2,132,000 | - |
| Arbitrage rebate | 194,000 | - | - | 194,000 | - |
| Total long-term liabilities | <u>\$ 452,693,000</u> | <u>\$ 249,933,000</u> | <u>\$ (86,720,000)</u> | <u>\$ 615,906,000</u> | <u>\$ 88,100,000</u> |

F-014

1998A Water Revenue Certificates of Participation

To provide funds for the design and construction of the Authority's Emergency Storage Project and other water system improvements in furtherance of the Authority's Capital

Improvement Program, the Authority issued 1998A Water Revenue Certificates of Participation on October 15, 1998, in the aggregate principal amount of \$180,000,000.

The Series 1998A Series Certificates with an aggregate principal amount of \$100,000,000 have stated interest rates ranging from 4.75% to 5.25% payable semi-annually on May 1 and November 1. The net interest cost to the Authority on the 1998A Certificates for the years ended June 30, 2000 and 1999 was approximately 4.89% and 4.57%, respectively. These certificates mature serially through May 1, 2018, subject to optional prepayments beginning 2008.

The Term Certificates with an aggregate principal amount of \$80,000,000 have stated interest rates ranging from 4.75% to 5.00% payable semi-annually on May 1 and November 1. An amount of \$17,310,000 of these Term Certificates are due May 1, 2002 at a price of 99.750%, \$19,035,000 are due May 1, 2024 at a price of 93.114% and \$43,655,000 are due May 1, 2028.

The 1998A Water Revenue Certificates were issued at a discount of \$1,202,000 and issuance costs of \$965,000. The certificates require that a reserve be maintained in an amount equal to the lesser of \$15,392,000 or maximum annual debt service on the 1998A Certificates. At June 30, 2000 and 1999, the reserve was fully funded. Included in restricted cash and investments at June 30, 2000 and 1999, is unexpended bond proceeds in the amount of \$112,634,000 and \$141,423,000, respectively. The principal balance of outstanding certificates at June 30, 2000 is \$178,901,000, net of unamortized discount of \$1,099,000 and \$178,839,000, net of unamortized discount of \$1,161,000, at June 30, 1999.

1997A Water Revenue Refunding Certificates of Participation

On December 1, 1997, the Authority issued Water Revenue Refunding Certificates of Participation in the amount of \$162,315,000 with stated interest rates between 4.00% and 5.75% to refund, in advance, \$74,035,000 of the 1991A Certificates with stated interest rates between 6.25% and 6.40% and \$80,000,000 of the 1991B Certificates with interest payable at rates determined by auction every fifth week, not to exceed a blended rate of 6.3%.

The Serial Certificates with an aggregate principal amount of \$144,285,000, have stated interest rates ranging from 4.00% to 5.75% payable semi-annually on May 1 and November 1. The net interest cost to the Authority on the 1997A certificates for the years ended June 30, 2000 and 1999 was approximately 4.92% and 4.91%, respectively. These certificates mature serially through May 1, 2018, subject to optional prepayments beginning in 2008. The Series 1997A Term Certificates, with an aggregate principal amount of \$18,030,000, have an interest rate of 4.75%, are due May 1, 2020, and are subject to optional prepayments beginning in 2008.

The Certificates require that a reserve be maintained in an amount equal to the lesser of 10% of the principal amount, 100% of the maximum annual debt service, or 125% of the average annual debt service. A surety bond in the amount of \$15,197,000 has been obtained by the Authority and issued in satisfaction of the requirement.

The 1997A Water Revenue Refunding Certificates were issued at a premium of \$2,958,000 with issuance costs of \$1,342,000. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$17,184,000. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through the year 2020 using the effective interest method. Included in interest expense for the years ended June 30, 2000 and 1999 is amortization of \$1,113,226 and \$1,047,000, respectively, of net deferred amounts. The Authority completed the advance refunding to reduce its total debt service payments over the next twenty-two years by \$20,896,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$5,530,000. The principal balance of outstanding certificates at June 30, 2000 is \$149,498,000, net of unamortized premium of \$2,503,000 and unamortized loss from refunding of \$14,540,000. The principal balance of outstanding certificates at June 30, 1999 is \$149,211,000, net of unamortized premium of \$2,695,000 and unamortized loss from refunding of \$15,654,000.

1993 Water Revenue Refunding Certificates of Participation

To provide funds for the refunding of the 1989A Water Revenue Certificates of Participation, the Authority issued the 1993A Certificates in February 1993 in the aggregate principal amount of \$135,650,000.

The Series 1993A Current Interest Certificates, with an aggregate principal amount of \$85,050,000, have stated interest rates ranging from 3.50% to 5.50% payable semi-annually on May 1 and November 1. The net interest cost to the Authority on the 1993A certificates for the years ended 2000 and 1999 was approximately 5.87% and 5.75%, respectively. These certificates mature serially through May 1, 2005 and are not subject to prepayment. The Series 1993A Floating Auction Tax Exempts (the "FLOATS"), with an aggregate principal amount of \$25,300,000, carry an interest rate determined by auction every 28 days. The FLOATS are due April 22, 2009, subject to mandatory prepayments beginning in 2006. The Series 1993A Residual Interest Tax Exempt Securities (the "RITES") with an aggregate principal amount of \$25,300,000 carry interest rates determined by a fixed component and an auction rate component payable every 28 days, not to exceed 5.75% in aggregate. The RITES mature serially between April 26, 2006 and April 22, 2009 and are not subject to mandatory prepayment. Interest rates are subject to minimum and maximum limits and may be fixed by the holder.

The Certificates require that a reserve be maintained in an amount equal to the lesser of \$13,565,000, 100% of the maximum annual installment payments, or 125% of average annual installment payments. A surety bond has been obtained by the Authority and issued in satisfaction of this requirement.

1991 Water Revenue Certificates of Participation

To provide funds for the acquisition and construction of water system improvements, the Authority issued Series 1991A and 1991B Water Revenue Certificates of Participation in November 1991 in the aggregate principal amount of \$300,000,000.

The Series 1991A Certificates, with an aggregate principal amount of \$89,265,000 carry stated interest rates ranging from 5.20% to 6.125% payable semi-annually on May 1 and November 1. The net interest cost to the Authority on the Series 1991A and 1991B Water Revenue Certificates of Participation for the years ended June 30, 2000 and 1999 was approximately 6.97% and 6.49%, respectively. These Certificates mature serially through May 1, 2003 and may be redeemed, at the option of the Authority, at premiums decreasing from 2% in 2001 to 1% in 2003.

The Series 1991B Certificates consist of Short-Term Auction Rate and Complementary Auction Rate Certificates in the aggregate principal amount of \$56,700,000 with interest payable at rates determined by auction every fifth week, not to exceed an aggregate net cost to the Authority of 6.3%. These Certificates mature April 21, 2011.

The Certificates require that a reserve be maintained in an amount of \$21,353,000, representing the lesser of 100% of the maximum annual payments, or 125% of the average annual payments. At June 30, 2000 and 1999, the reserve was fully funded.

1966 Waterworks General Obligation Bonds

During 1968, the Authority issued General Obligation Bonds in the aggregate principal amount of \$30,000,000 with stated interest rates ranging from 4.50% to 5.50% payable semi-annually on April 1, and October 1, for the construction of a second pipeline to the second aqueduct. The bonds mature serially through October 1, 2003 and may be redeemed on or after October 1, 1980 at premiums decreasing from 3.50% in 1980 to .50% in 2002.

Commercial Paper

The Authority has a commercial paper program through which it can borrow up to \$250,000,000 for periods of up to 270 days. Currently, the amount that can be borrowed is limited to \$110,000,000, the amount of the revolving credit and term loan agreement that supports a portion of the program. The revolving credit and term loan agreement, unless otherwise extended, will terminate on November 7, 2000. During the term of the agreement, the Authority is obligated to pay a usage fee of .10% on the utilized commitment and .06% on the unutilized commitment. Currently, no advances have been made under the revolving credit and term loan agreement. The Authority maintains remarketing arrangements with two dealers at a total cost of .05% on the outstanding commercial paper. The commercial paper notes are secured and payable solely from net water revenues and are subordinate to the water revenue certificates of participation. At June 30, 2000 and 1999, \$70,000,000 of commercial paper is outstanding.

Revenue Covenants

Certain outstanding debt agreements require the Authority to maintain a minimum level of operational earnings. Exclusive of the tax revenue and debt servicing costs associated with voter-approved general obligation bonds and other voter-approved debt, net water revenues, as defined by the agreement, must equal or exceed 120% of all other debt servicing costs (principal

and interest). The Authority was in compliance with all of its covenants, including meeting its debt service ratio requirement.

In fiscal year 1990, the Authority established a water rate stabilization fund for the purpose of identifying amounts available to mitigate future water rate increases. The Authority will transfer portions of its net water revenues (as defined) which exceed its debt service ratio requirement, into the rate stabilization fund and from time to time transfer amounts from its rate stabilization fund into net water revenues to meet its debt service ratio requirements. There were no transfers during the years ended June 30, 2000 and 1999. As of June 30, 2000 and 1999, the balance in this fund, which is included in restricted cash, cash equivalents and investments, totaled \$43,072,000 and 41,075,000, respectively.

Unamortized Bond Issuance Costs

Included in non-current assets at June 30, 2000 and 1999 are deferred financing costs of \$5,111,000 and \$5,520,000, respectively. The deferred financing costs are being amortized over the life of the related obligations.

Prior Year Defeasance of Debt

In prior years, the Authority defeased \$74,035,000 of the 1991A Certificates and \$80,000,000 of the 1991B Certificates, by placing the net proceeds of \$163,931,000 from the 1997A Water Revenue Refunding Certificates of Participation plus an additional amount of \$5,099,000 of the 1991A and 1991B Certificates reserve funds and other monies, in an irrevocable trust to provide for all future debt service payments on the \$74,035,000 1991A Certificates of Participation and the \$80,000,000 1991B Certificates of Participation. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the Authority's financial statements. At June 30, 2000 and 1999, \$154,035,000 of certificates outstanding are considered defeased.

Debt to Maturity

The annual requirements to amortize outstanding long-term debt of the Authority excluding amortizations of discounts, premiums, losses, and commercial paper at June 30, 2000 are as follows:

| <u>June 30</u> | <u>Principal Payment</u> | <u>Interest Payment</u> | <u>Total Debt Service</u> |
|-------------------|--------------------------|-------------------------|---------------------------|
| 2001 | \$ 21,555,000 | \$ 29,224,000 | \$ 50,779,000 |
| 2002 | 23,235,000 | 28,425,000 | 51,660,000 |
| 2003 | 24,040,000 | 26,853,000 | 50,893,000 |
| 2004 | 25,195,000 | 25,413,000 | 50,608,000 |
| 2005 | 25,430,000 | 24,460,000 | 49,890,000 |
| Thereafter | <u>\$ 420,145,000</u> | <u>\$ 206,223,000</u> | <u>\$ 626,368,000</u> |
| Total | <u>\$ 539,600,000</u> | <u>\$ 340,598,000</u> | <u>\$ 880,198,000</u> |

NOTE 5. CHANGE IN ACCOUNTING PRINCIPLES

During the year ended June 30, 2000, the Authority implemented GASB Statement No. 33, which requires that capital contributions be recognized in the determination of net income, rather than as a direct addition to an equity account called contributed capital. The Authority also implemented GASB Statement No. 34 during the year ended June 30, 2000, which modifies accounting and financial reporting standards for basic financial reporting. The effect of applying this statement upon the beginning net assets of the Authority was \$16,759,000 as documented in note 6. Financial data presented for the year ended June 30, 1999 has been restated to conform to the year 2000 presentation. The cumulative effect of this change has been reflected as a restatement of beginning net assets as of July 1, 1998.

NOTE 6. RESTATEMENT OF BEGINNING ASSETS

The accompanying financial statements reflect an adjustment that resulted in a restatement of net assets due to the implementation of GASB Statement No. 34.

| | |
|---|------------------------------|
| Retained earnings at July 1, 1998, <i>as previously reported</i> | \$ 465,753,000 |
| Cumulative effect of GASB Statement No. 34 | <u>16,759,000</u> |
| Net assets at July 1, 1998, <i>as restated</i> | <u><u>\$ 482,512,000</u></u> |

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NOTE 7. NET ASSETS

Net assets at June 30, 1999 and 2000 consisted of the following:

| | | |
|--|------------------------------|------------------------------|
| Invested in capital assets, net of related debt: | | |
| Property, plant and equipment, net Less: | \$ 848,863,000 | \$ 803,100,000 |
| Outstanding debt issued to construct capital assets | (526,464,000) | (543,580,000) |
| Add back the unspent portion of bond proceeds | <u>112,701,000</u> | <u>141,423,000</u> |
| Total invested in capital assets, net of related debt | <u>435,100,000</u> | <u>400,943,000</u> |
| Restricted net assets: | | |
| Restricted by bond documents and enabling legislation for capital projects | 97,977,000 | 73,490,000 |
| Restricted debt service reserves | <u>36,846,000</u> | <u>36,837,000</u> |
| Total restricted net assets | <u>134,823,000</u> | <u>110,327,000</u> |
| Unrestricted net assets | <u>25,493,000</u> | <u>21,322,000</u> |
| Total net assets | <u><u>\$ 595,416,000</u></u> | <u><u>\$ 532,592,000</u></u> |

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NOTE 8. DEFINED BENEFIT PENSION PLAN

Plan Description

The San Diego County Water Authority contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living

adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. Copies of PERS' annual financial report may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

Funding Policy

The Authority has elected to make contributions on behalf of its employees at the required amount of 7% of their annual covered salary. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. For the years ended June 30, 2000 and 1999, the amount contributed by the Authority on behalf of the employees was \$796,000 and \$734,000, respectively. The required employer contribution rate for the year ended June 30, 2000 was 3.194%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS.

Annual Pension Cost

For fiscal years ended June 30, 2000 and 1999, the Authority's annual pension cost of \$1,192,000 and \$1,620,000, respectively, was equal to the Authority's required and actual contributions. The required contributions were determined as part of the June 30, 1997 and 1996 actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20% for miscellaneous members; and (c) 3.75% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.50%. The actuarial value of the PERS assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. All assets in excess of the entry age normal accrued liability is now amortized over time, thus reducing the employee contribution rate.

Three-Year Trend Information

| <u>Fiscal Year</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contribution</u> | <u>Net Pension Obligation</u> |
|--------------------|----------------------------------|---------------------------------------|-------------------------------|
| 6/30/98 | \$ 1,492,000 | 100% | - |
| 6/30/99 | 1,620,000 | 100% | - |
| 6/30/00 | 1,192,000 | 100% | - |

F-018

Required Supplementary Information

| <u>Valuation Date</u> | <u>Entry Age Normal Accrued Liability</u> | <u>Actuarial Value of Assets</u> | <u>y (Excess Assets)</u> | <u>Funded Status</u> | <u>Annual Covered Payroll</u> | <u>UAAL As a % of Payroll</u> |
|-----------------------|---|--------------------------------------|------------------------------|--------------------------|-----------------------------------|-----------------------------------|
| 6/30/96 | \$ 19,880,679 | \$ 19,986,401 | \$ (105,722) | 100.5% | \$ 8,942,657 | -1.182% |
| 6/30/97 | 20,675,551 | 24,027,237 | (3,351,686) | 116.2% | 8,969,774 | -37.366% |
| 6/30/98 | 23,161,310 | 29,520,782 | (6,359,472) | 127.5% | 10,131,347 | -62.770% |

F-019

NOTE 9. DEFERRED COMPENSATION PLAN

The Authority has adopted a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. Generally, all eligible employees may defer receipt of a portion of their salary until future years. The employees are not liable for income taxes on amounts deferred until the funds are withdrawn. At June 30, 2000 and 1999, assets of the Plan totaled \$12,374,104 and \$10,412,318, respectively.

In certain prior years, all of the Plan assets, until paid or made available to the employees or their beneficiaries, were the sole property of the Authority, subject to the claims of the Authority's general creditors. The plan was amended during the year ended June 30, 1998, in accordance with recent changes in the Internal Revenue Code, so that all assets are now held in trust for the exclusive benefit of the participants and their beneficiaries. Therefore, the plan assets and corresponding liability to the participants are no longer recognized in the accompanying financial statements.

NOTE 10. INSURANCE

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a participant in the Association of California Water Agencies Joint Powers Insurance Authority (JPIA) for the purpose of providing general liability insurance for the member agencies. The Authority had a self-insured retention level of \$50,000 per claim for auto and general liability for the years ended June 30, 2000 and 1999. The total coverage limit is \$50,000,000 at June 30, 2000 and 1999. The program provides for up to \$100,000,000 in coverage for property damage with a \$25,000 deductible.

The Authority is also a participant in the JPIA for the purpose of providing insurance coverage for workers compensation. Liabilities under this program are accrued and charged to expense when the claims are reasonably determinable and when the existence of the Authority's liability is probable. There is no self-insurance retention required for the years ended June 30, 2000 and 1999. The total coverage under this policy is \$5,500,000.

The amount of settlements did not exceed insurance coverage for the past three years for either JPIA coverages.

In 1999, the Authority entered into an Owner Controlled Insurance Program to provide worker's compensation and general liability insurance to the contractors of the Emergency

Storage Program. Premiums paid in fiscal year ended June 30, 2000 were \$1,846,000. Premiums are adjusted annually based on loss experience. The general liability deductible is \$250,000 per occurrence. The total coverage limit is \$2 million per occurrence and \$4 million aggregate. The workers compensation program provides full statutory coverage with a \$250,000 deductible for each occurrence.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Litigation

The Authority is subject to lawsuits and claims which arise out of the normal course of business. In the opinion of management, based upon the opinion of legal counsel, the disposition of such actions of which it is aware will not have a material effect on the financial position, results of operations or liquidity of the Authority.

Construction Projects

The Authority is committed to a long-range effort to increase the present aqueduct capacity, obtain additional water from a variety of sources, including water marketing, provide additional storage within the County and maximize the use of existing storage reservoirs. The Authority's current Capital Improvement Program (the Program) is budgeted at approximately \$1.1 billion, to be expended over the next ten years.

The following material construction commitments existed at June 30, 2000:

| <u>Project Name</u> | Cumulative Expenditures as of June 30, 2000 | Remaining Commitments |
|---------------------------------------|--|----------------------------------|
| Valley Center Pipeline | \$ 1,113,000 | \$ 1,981,000 |
| Pipeline 5 Diversion Structure | 6,228,000 | 7,586,000 |
| Pipeline 6 | 29,000 | 4,085,000 |
| Emergency Storage Project | 24,252,000 | 28,730,000 |
| Moreno-Lakeside Pipeline | 1,514,000 | 1,351,000 |
| Replacement/Relining of Existing PCCP | 264,000 | 1,680,000 |

F-020

Emergency Storage Project

On June 4, 1998, the Board of Directors approved the Emergency Storage Project (ESP) that develops approximately 90,100 acre-feet of reservoir storage and supporting distribution facilities to supplement emergency water supplies available to the region in case of prolonged interruption of the imported water supply. The project is estimated to cost \$771 million on an inflated basis. A combination of debt and funding from operations will be used to finance these requirements. The ratio of debt to cash used will be that which provides the smoothest water rate increase pattern over the planning horizon.

The design and construction phase of the ESP is scheduled to take place in phases between 1999 and 2011 in order to minimize water rate increases, comply with air quality protection conditions of the permit and preserve the flexibility in sizing of critical project components. The project includes the following major components:

- Design and construction of a reservoir and related infrastructure within the Olivenhain Municipal Water District. The project includes pipelines and pump stations to connect the reservoir to the Second Aqueduct and Lake Hodges. The Olivenhain and Lake Hodges facilities are scheduled for completion in 2008.
- Modifications to the existing San Vicente Dam, which will raise the dam by 54 feet, and construction of a related pipeline and pump stations which will connect the reservoir to the Second Aqueduct. The completion of the expansion of the San Vicente facilities is scheduled for 2010.

Imperial Irrigation District Water Transfer Agreement

On April 29, 1998, the Board of Directors approved the “Agreement for the Transfer of Conserved Water by and between the Imperial Irrigation District (IID) and San Diego County Water Authority” (the agreement). The terms of the agreement provide for the transfer of conserved agricultural water, as defined by the agreement, from the IID to the Authority, subject to certain terms and conditions. The duration of the agreement is for 45 years with renewal provisions for an additional 30 years. The quantity of conserved water to be transferred during year one of the agreement will be 20,000 acre feet per year (AFY) beginning in 2002. This amount will increase by 20,000 AFY until a stabilized quantity of between 130,000 AFY and 200,000 AFY is reached. The determination of the quantity to be transferred within this range is solely at the discretion of the IID. The agreement provides for the transfer of up to 100,000 AFY of additional quantities of conserved water after year 10 of the agreement, subject to availability. The proposed agreement is conditioned upon, among other things, the availability of a minimum of 130,000 AFY.

The agreement includes a formula to determine the water’s price that includes a discount from the price of MWD water (starting at 25% in the first year of the agreement and declining over the next 17 years to 5%) after an adjustment for the Authority’s cost to convey the water to MWD’s Colorado River Aqueduct. Under the current MWD pricing structure and Authority conveyance cost estimates, the price of the transferred water would normally be less to the Authority than the cost of MWD supplied water and would compare favorably to other sources of supply.

On July 22, 1998, the Authority and IID filed a joint petition with the State Water Resources Control Board’s (SWRCB) Division of Water Rights for approval of a Long-Term Conserved Water Transfer Agreement and Change in Point of Diversion and Place of Use. The water transfer is subject to SWRCB review and approval pursuant to the continuing retained jurisdiction of the SWRCB over IID’s conservation activities under both SWRCB Decision 1600, SWRCB Water Rights Order 88-20, Article X, Section 2 of the California Constitution and certain provisions of the Water Code.

On November 10, 1998, the Authority and MWD agreed to an exchange contract which will facilitate the IID transfer. Under the terms of the contract, the Authority will deliver water it acquires from IID to MWD, in exchange for the same amount of MWD water. The agreement

would terminate thirty years after the start of deliveries from IID to the Authority. Based on the exchange price structure established by the contract, the total cost of the transferred water to the Authority during the initial 10 years of deliveries would be less than MWD supplied water.

The agreement cannot be implemented until the environmental review and assessment required by the California Environmental Quality Act (CEQA) and National Environmental Policy Act (NEPA) has been completed. The agreement designates IID as the lead agency and the Authority as a responsible agency for the purposes of CEQA. IID as lead agency under California law, and the Bureau of Reclamation, as lead agency under federal law are processing a joint environmental impact report (EIR) under CEQA and environmental impact statement (EIS) under NEPA. In addition to cooperating in the environmental review process, the Authority and IID have agreed to take all steps necessary to comply with the Federal Endangered Species Act and the California Endangered Species Act and other applicable state and federal resource protection laws. It is currently expected that the EIR/EIS will be completed and approved in calendar year 2001.

SUPPLEMENTARY INFORMATION



San Diego County Water Authority

SAN DIEGO COUNTY WATER AUTHORITY
Budget Comparison Schedule
Fiscal Year Ended June 30, 2000

| <u>Revenues</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance (Negative) with Final Budget</u> |
|---|------------------------|-----------------------|-----------------------|--|
| Water Sales | \$ 218,385,724 | \$ 261,207,548 | \$ 261,207,548 | (0) |
| Taxes | 5,700,000 | 5,700,000 | 6,664,964 | 964,964 |
| Interest Income | 16,100,000 | 16,100,000 | 20,493,788 | 4,393,788 |
| Standby Charges | 10,600,000 | 10,600,000 | 10,829,579 | 229,579 |
| Capacity Charges | 11,300,000 | 11,300,000 | 21,499,736 | 10,199,736 |
| Infrastructure Access Charge | 9,700,000 | 9,700,000 | 9,626,382 | (73,618) |
| Other Income | 400,000 | 400,000 | 190,418 | (209,582) |
| Capital Reimbursement | 16,400,000 | 16,400,000 | 7,609,370 | (8,790,630) |
| Total Revenues | \$ 288,585,724 | \$ 331,407,548 | \$ 338,121,785 | \$ 6,714,237 |
| <u>Operating Budget ⁽¹⁾</u> | | | | |
| Administrative services | \$ 2,868,997 | \$ 2,768,997 | \$ 2,463,480 | \$ 305,517 |
| Engineering | 1,078,738 | 1,278,738 | 1,173,878 | 104,860 |
| Finance | 1,440,123 | 1,440,123 | 1,245,468 | 194,655 |
| General Counsel | 815,200 | 1,515,200 | 1,504,363 | 10,837 |
| General Manager | 1,841,649 | 2,491,649 | 2,173,528 | 318,121 |
| Human Resources | 643,950 | 643,950 | 547,116 | 96,834 |
| Imported Water | 1,146,589 | 1,146,589 | 918,891 | 227,698 |
| Operations & Maintenance | 5,554,666 | 5,254,665 | 4,848,046 | 406,619 |
| Public Affairs | 1,680,686 | 1,680,686 | 1,519,000 | 161,686 |
| Right of Way | 676,828 | 776,828 | 746,485 | 30,343 |
| Water Resources | 2,394,224 | 2,394,224 | 2,188,429 | 205,795 |
| Total Operating Budget | \$ 20,141,650 | \$ 21,391,649 | \$ 19,328,684 | \$ 2,062,965 |
| <u>Expenditures</u> | | | | |
| Water Purchases | \$ 185,442,183 | \$ 217,000,150 | \$ 217,000,150 | (0) |
| Capital Purchases | 99,364,859 | 99,364,859 | 50,531,686 | 48,833,173 |
| Debt Services | 51,404,416 | 51,404,416 | 50,822,423 | 581,993 |
| Equipment Replacement | 1,100,000 | 1,100,000 | 1,100,000 | (0) |
| Operating Budget | \$ 20,141,650 | \$ 21,391,649 | \$ 19,328,684 | \$ 2,062,965 |
| Total Expenditures | \$ 357,453,108 | \$ 390,261,074 | \$ 338,782,943 | \$ 51,478,131 |

⁽¹⁾ Operating Budget and expenditures include equipment purchases.

U-001

STATISTICAL SECTION



San Diego County Water Authority

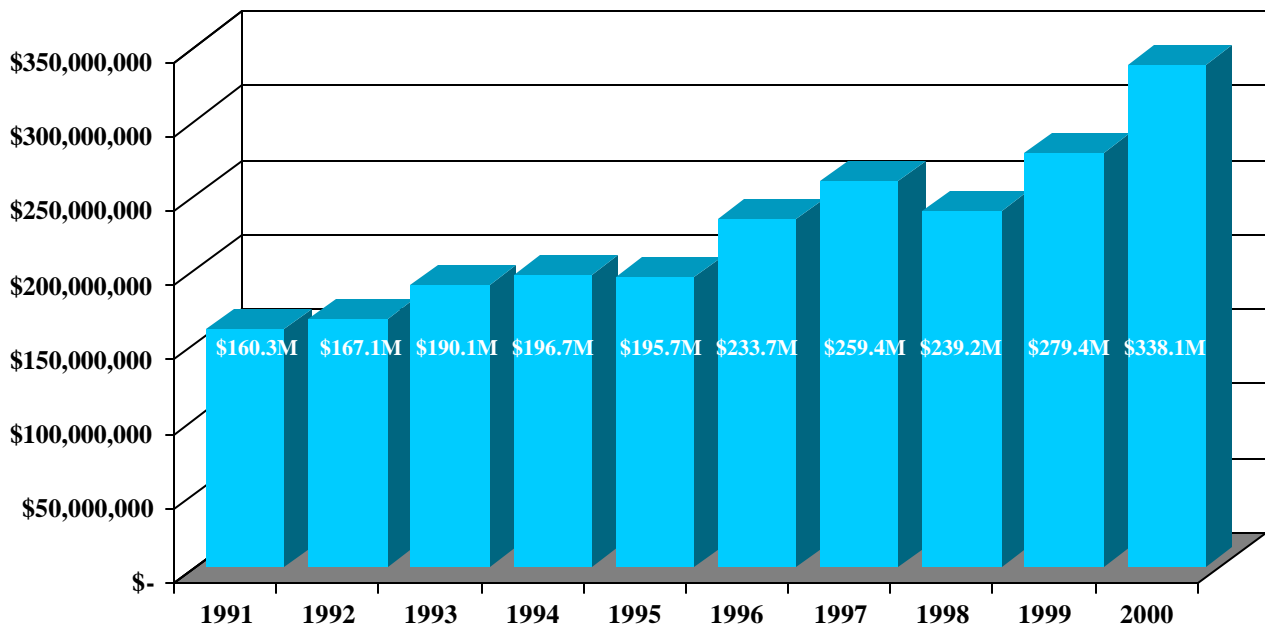
Table I
Revenues By Source
Last Ten Fiscal Years

| Fiscal Year | Water Sales(1) | Other | Total Operating Revenues | Property(2) Taxes | Standby Charges | Capacity Charges | Infrastructure | | Other | Total Revenues |
|-------------|-------------------------------|------------|--------------------------|-------------------|-----------------|------------------|----------------|---------------------|--------------|----------------|
| | | | | | | | Access Charges | Interest (3) Income | | |
| 2000 | \$ 261,767,212 ⁽⁴⁾ | \$ 301,704 | \$ 262,068,916 | \$ 6,664,964 | \$ 10,829,579 | \$ 21,499,736 | \$ 9,626,382 | \$ 19,822,838 | \$ 7,609,370 | \$ 338,121,785 |
| 1999 | 217,532,233 | 80,521 | 217,612,754 | 6,125,169 | 10,522,621 | 21,259,485 | 4,789,374 | 15,533,516 | 3,308,579 | 279,151,498 |
| 1998 | 194,789,707 | 180,237 | 194,969,944 | 5,771,939 | 10,659,841 | 16,351,377 | - | 11,301,300 | 116,555 | 239,170,956 |
| 1997 | 218,260,727 | 147,248 | 218,407,975 | 5,525,276 | 10,797,459 | 11,350,619 | - | 12,628,972 | 672,936 | 259,383,237 |
| 1996 | 194,452,323 | 25,369 | 194,477,692 | 5,464,748 | 10,489,980 | 9,869,304 | - | 13,282,013 | 120,768 | 233,704,505 |
| 1995 | 158,984,450 | 91,153 | 159,075,603 | 5,473,030 | 10,754,203 | 7,498,972 | - | 12,765,296 | 101,507 | 195,668,611 |
| 1994 | 161,362,127 | 50,526 | 161,412,653 | 5,940,161 | 10,895,674 | 7,158,147 | - | 10,734,246 | 555,064 | 196,695,945 |
| 1993 | 149,563,647 | 149,680 | 149,713,327 | 8,261,798 | 10,905,172 | 4,917,362 | - | 15,390,460 | 872,703 | 190,060,822 |
| 1992 | 123,526,843 | 118,594 | 123,645,437 | 8,822,219 | 10,514,793 | 4,665,048 | - | 17,794,777 | 1,636,858 | 167,079,132 |
| 1991 | 121,398,641 | 171,757 | 121,570,398 | 8,200,035 | 10,672,977 | 6,017,364 | - | 13,367,581 | 491,269 | 160,319,624 |

Source: San Diego County Water Authority

S-001

Total Revenues
(Millions)



S-001A

- (1) Includes "Readiness-to-Serve" charge assessed by the Metropolitan Water District.
- (2) Includes all taxes including "In-Lieu Taxes."
- (3) Net of unrealized gain/loss on investments.
- (4) Net of one time refund to member agencies of \$6,268,000.

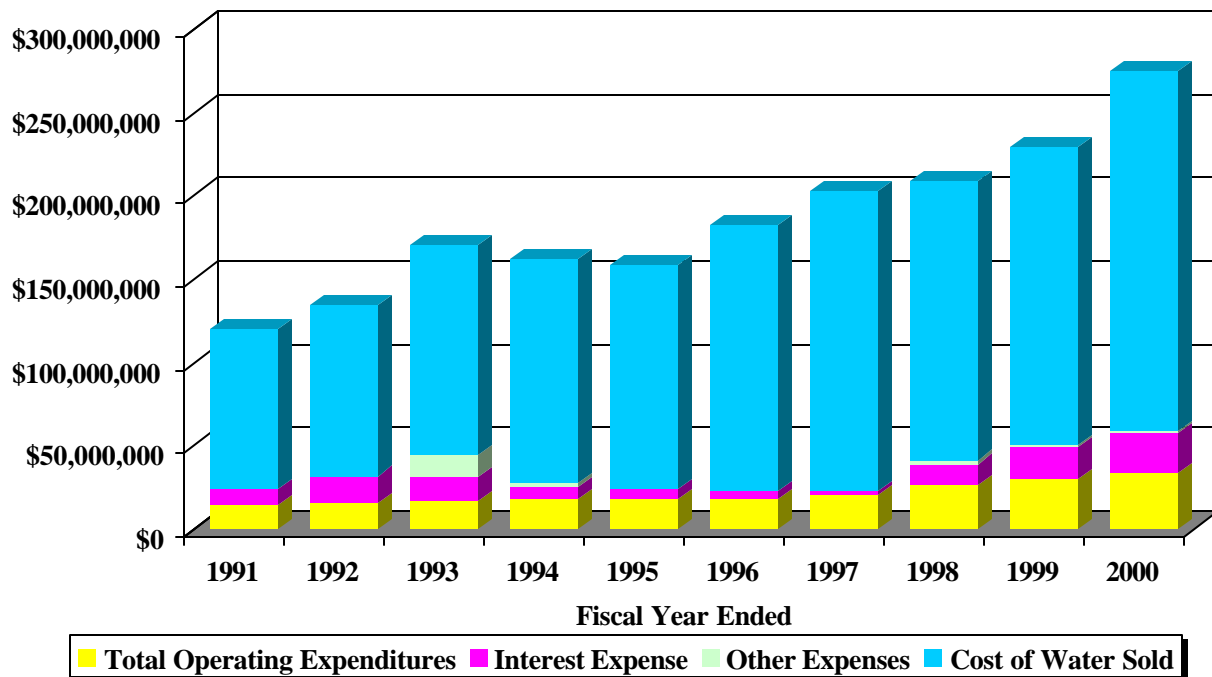
Table II
Expenditures by Function
Last Ten Fiscal Years

| Fiscal Year Ended | Cost of Water Sold | Operations and Maintenance | Planning | General and Administration | Depreciation and Amortization | Total Operating Expenditures | Interest Expense ⁽¹⁾ | Other | Total Expenditures |
|-------------------|--------------------|----------------------------|--------------|----------------------------|-------------------------------|------------------------------|---------------------------------|----------------------------|--------------------|
| 2000 | \$ 217,000,150 | \$ 6,441,763 | \$ 2,188,429 | \$ 10,073,786 | \$ 14,870,367 | \$ 33,574,345 | \$ 24,492,003 | \$ 242,875 | \$ 275,309,373 |
| 1999 | 179,332,463 | 6,499,328 | 2,267,007 | 8,359,277 | 12,784,802 | 29,910,414 | 19,664,511 | 524,783 | 229,432,171 |
| 1998 | 167,002,808 | 6,305,758 | 1,912,598 | 8,742,776 | 9,753,786 | 26,714,918 | 12,262,040 | 2,480,000 ⁽²⁾ | 208,459,766 |
| 1997 | 180,032,196 | 5,695,396 | 1,761,629 | 6,557,442 | 6,115,132 | 20,129,599 | 2,613,886 | - | 202,775,681 |
| 1996 | 160,132,480 | 4,726,096 | 2,442,588 | 6,235,335 | 4,984,609 | 18,388,628 | 4,197,456 | - | 182,718,564 |
| 1995 | 134,347,725 | 3,842,111 | 3,929,107 | 5,587,773 | 4,711,556 | 18,070,547 | 5,774,855 | - | 158,193,127 |
| 1994 | 134,381,146 | 3,289,862 | 4,014,820 | 5,848,987 | 4,928,777 | 18,082,446 | 6,972,245 | 2,158,000 ^(2,3) | 161,593,837 |
| 1993 | 126,641,750 | 3,821,000 | 2,423,000 | 5,666,000 | 4,896,309 | 16,806,309 | 14,306,103 | 12,978,000 | 170,732,162 |
| 1992 | 102,516,623 | 3,424,000 | 3,398,000 | 4,904,000 | 4,203,502 | 15,929,502 | 15,752,773 | - | 134,198,898 |
| 1991 | 96,712,644 | 3,164,000 | 2,798,000 | 4,711,000 | 4,143,253 | 14,816,253 | 8,948,042 | - | 120,476,939 |

Source: San Diego County Water Authority

S-002

Expenditures by Function
(Millions)



S-002A

Table III

- (1) Net of capitalized interest
- (2) Includes write down to expense on certain capital projects related to feasibility costs, which were not viable.
- (3) Includes extraordinary loss of \$10,978,000 from Bond Defeasance.

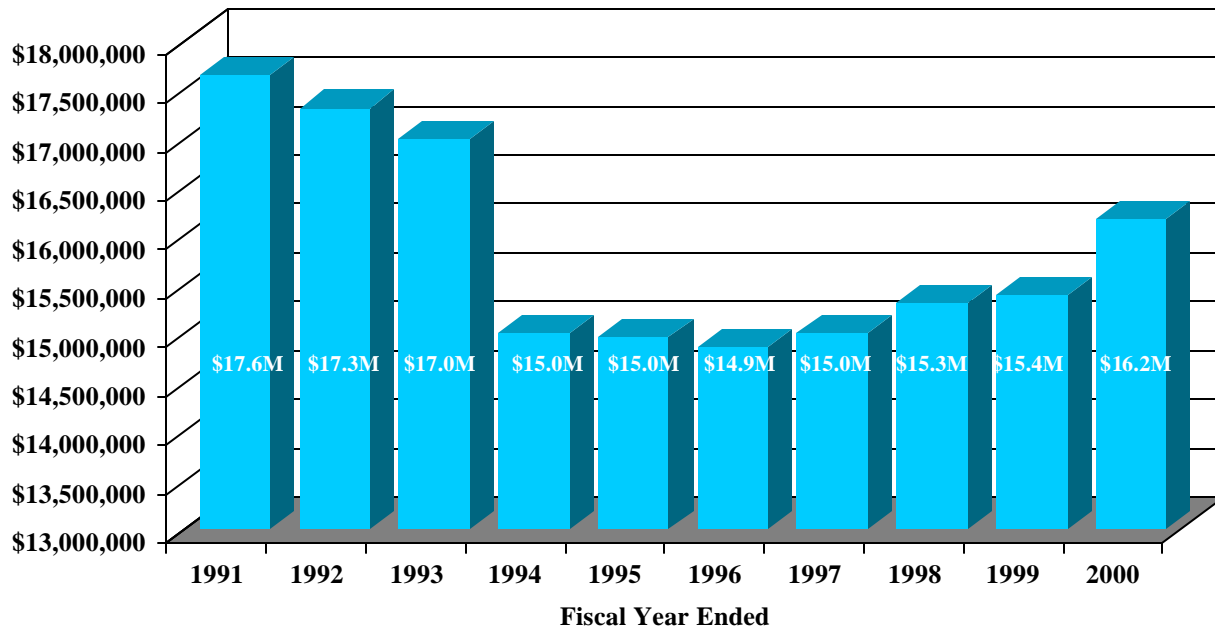
Property Tax and Assessment Levies and Collections
Last Ten Fiscal Years

| <u>Fiscal Year Ended</u> | <u>Property Taxes</u> | <u>Special Assessments</u> | <u>Total Levy</u> | <u>Total ⁽¹⁾ Collections</u> | <u>Net Delinquent</u> | <u>Percent Delinquent</u> |
|---------------------------------|------------------------------|-----------------------------------|--------------------------|--|------------------------------|----------------------------------|
| 2000 | \$ 5,806,670 | \$ 10,782,862 | \$ 16,589,532 | \$ 16,166,744 | \$ 422,788 | 2.50% |
| 1999 | 5,469,653 | 10,370,103 | 15,839,756 | 15,402,265 | 437,491 | 2.80% |
| 1998 | 5,207,949 | 10,582,737 | 15,790,686 | 15,312,439 | 478,247 | 3.00% |
| 1997 | 5,036,723 | 10,593,952 | 15,630,675 | 15,008,933 | 621,742 | 4.00% |
| 1996 | 4,949,117 | 10,624,075 | 15,573,192 | 14,859,610 | 713,582 | 4.50% |
| 1995 | 5,090,956 | 10,669,634 | 15,760,590 | 14,964,983 | 795,607 | 5.00% |
| 1994 | 5,402,697 | 10,659,007 | 16,061,704 | 15,010,045 | 1,051,659 | 6.50% |
| 1993 | 7,535,955 | 10,767,379 | 18,303,334 | 16,998,547 | 1,304,787 | 7.10% |
| 1992 | 7,611,309 | 10,677,985 | 18,289,294 | 17,308,977 | 980,317 | 5.40% |
| 1991 | 7,856,682 | 10,778,265 | 18,634,947 | 17,640,069 | 994,878 | 5.30% |

Source: San Diego County Water Authority and the Office of the Auditor & Controller, County of San Diego

S-003

Total Tax Collections
(Millions)



S-003A

⁽¹⁾ Collections on current year tax levy.

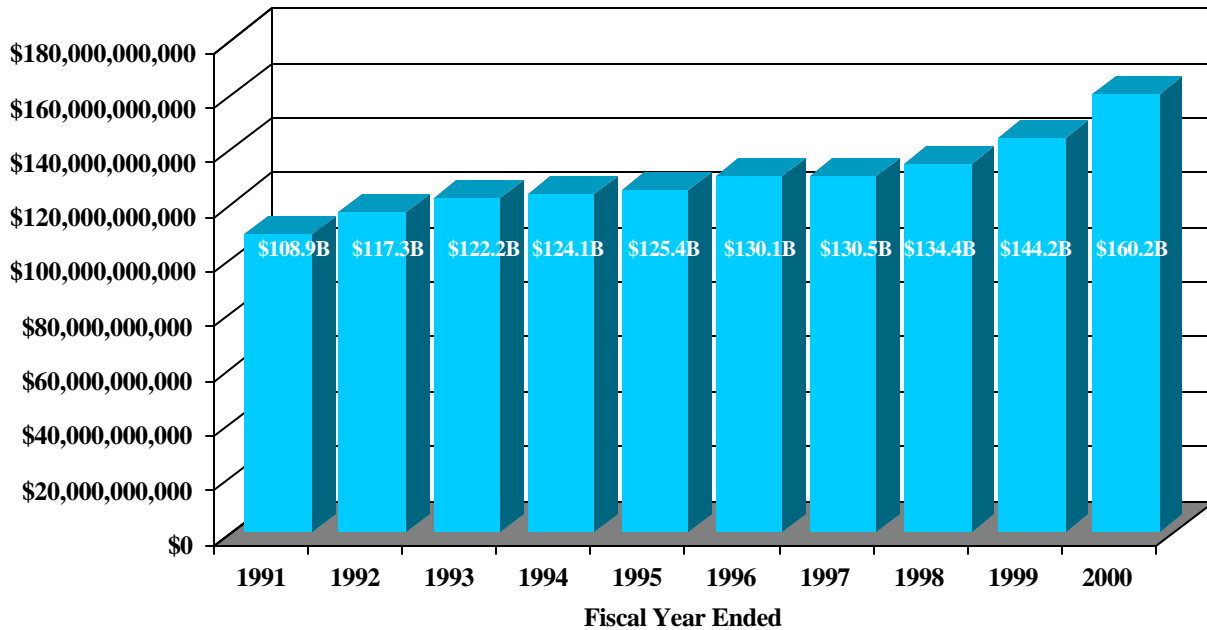
Table IV
Assessed Value of Taxable Property
Last Ten Fiscal Years

| Fiscal Year Ended | Real Property | Personal Property | Exemptions | Net Assessed Secured Value | Assessed Unsecured Value | Total Assessed Value | Secured Tax Rate(%) | Unsecured Tax Rate(%) |
|-------------------|--------------------|-------------------|-------------------|----------------------------|--------------------------|----------------------|---------------------|-----------------------|
| 2000 | \$ 162,942,179,765 | \$ 138,847,508 | \$ 11,248,397,609 | \$ 151,832,629,664 | \$ 8,352,620,071 | \$ 160,185,249,735 | 0.00100 | 0.00107 |
| 1999 | 147,073,219,918 | 146,980,971 | 10,246,920,653 | 136,973,280,236 | 7,250,319,165 | 144,223,599,401 | 0.00107 | 0.00117 |
| 1998 | 136,867,874,675 | 162,593,978 | 9,348,839,801 | 127,681,628,852 | 6,764,932,445 | 134,446,561,297 | 0.00117 | 0.00126 |
| 1997 | 133,651,172,709 | 132,636,879 | 9,352,208,450 | 124,431,601,138 | 6,111,815,905 | 130,543,417,043 | 0.00126 | 0.00120 |
| 1996 | 133,392,520,848 | 107,848,402 | 9,469,000,576 | 124,031,368,674 | 6,044,692,451 | 130,076,061,125 | 0.00120 | 0.00135 |
| 1995 | 128,691,255,799 | 109,636,405 | 9,164,161,171 | 119,636,731,033 | 5,727,549,758 | 125,364,280,791 | 0.00135 | 0.00151 |
| 1994 | 127,958,013,175 | 128,934,024 | 9,473,158,558 | 118,613,788,641 | 5,476,380,101 | 124,090,168,742 | 0.00151 | 0.00332 |
| 1993 | 125,954,623,975 | 66,258,740 | 9,247,821,775 | 116,773,060,940 | 5,403,856,209 | 122,176,917,149 | 0.00332 | 0.00320 |
| 1992 | 120,622,046,693 | 144,065,193 | 8,756,907,192 | 112,009,204,694 | 5,267,620,096 | 117,276,824,790 | 0.00320 | 0.00395 |
| 1991 | 111,400,613,016 | 94,328,288 | 7,764,669,520 | 103,730,271,784 | 5,178,426,850 | 108,906,698,634 | 0.00395 | 0.00432 |

Source: Office of the Auditor & Controller, County of San Diego

S-004

Total Assessed Value
(Billions)



S-004A

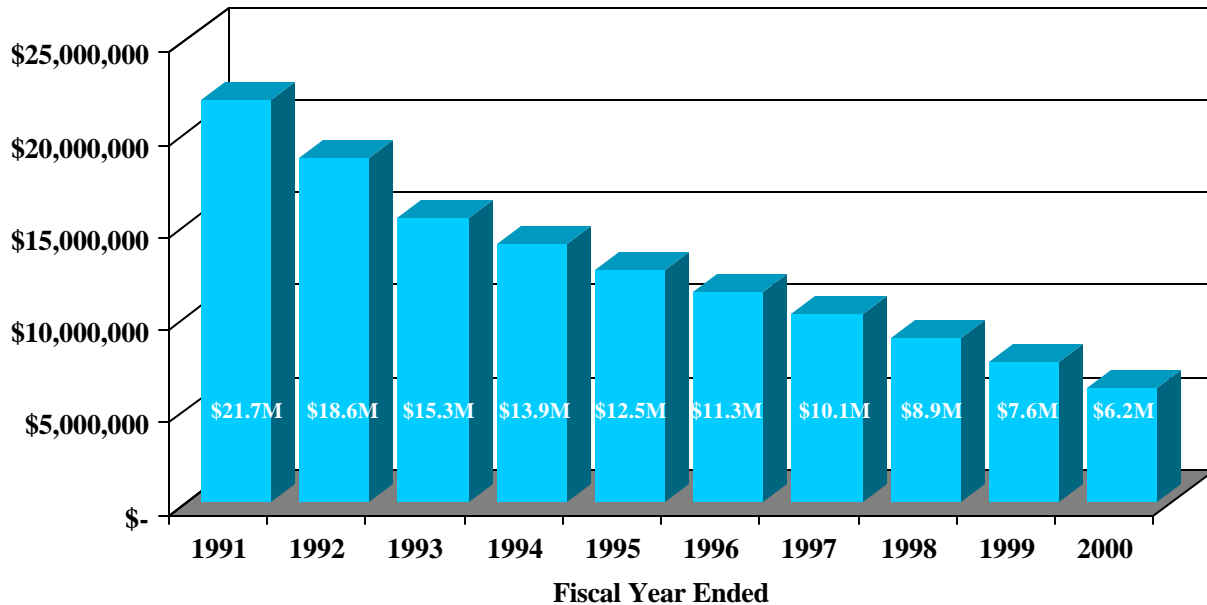
Table V
Ratio of Net General Bonded Debt to Assessed Value and
Net General Bonded Debt Per Capita Last Ten Fiscal Years

| Fiscal Year Ended | Population Estimate | Assessed Valuation | Gross Bonded Debt | Less: Debt Service Funds | Net Bonded Debt | Net Bonded Debt to Assessed Valuation | Net Bonded Debt Per Capita |
|-------------------|--------------------------|--------------------|-------------------|--------------------------|-----------------|---------------------------------------|----------------------------|
| 2000 | 2,783,000 ⁽¹⁾ | \$ 160,185,249,735 | \$ 6,165,000 | - | \$ 6,165,000 | \$ 0.0000385 | \$ 2.21523 |
| 1999 | 2,733,035 | 144,223,599,401 | 7,545,000 | - | 7,545,000 | 0.0000523 | 2.76067 |
| 1998 | 2,689,493 | 134,446,561,297 | 8,865,000 | - | 8,865,000 | 0.0000659 | 3.29616 |
| 1997 | 2,640,861 | 130,543,417,043 | 10,130,000 | - | 10,130,000 | 0.0000776 | 3.83587 |
| 1996 | 2,629,879 | 130,076,061,125 | 11,340,000 | - | 11,340,000 | 0.0000872 | 4.31199 |
| 1995 | 2,622,948 | 125,364,280,791 | 12,495,000 | - | 12,495,000 | 0.0000997 | 4.76372 |
| 1994 | 2,604,483 | 124,090,168,742 | 13,877,000 | - | 13,877,000 | 0.0001118 | 5.32812 |
| 1993 | 2,527,002 | 122,176,917,149 | 15,289,000 | - | 15,289,000 | 0.0001251 | 6.05025 |
| 1992 | 2,520,763 | 117,276,824,790 | 18,561,000 | - | 18,561,000 | 0.0001583 | 7.36325 |
| 1991 | 2,485,692 | 108,906,698,634 | 21,723,000 | - | 21,723,000 | 0.0001995 | 8.73922 |

Source: San Diego County Water Authority and the Office of Auditor & Controller, County of San Diego

S-005

Net General Bonded Debt Outstanding
(Millions)



S-005A

⁽¹⁾ Preliminary Annual Estimate

Table VI
Computation of Direct and Overlapping Debt
June 30, 2000

SAN DIEGO COUNTY WATER AUTHORITY

| | |
|-------------------------------------|---------------------------|
| 1999-00 Assessed Valuation | \$ 167,497,164,438 |
| Redevelopment Incremental Valuation | 9,849,686,202 |
| Adjusted Assessed Valuation: | <u>\$ 157,647,478,236</u> |

S-006

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:

| | <u>Applicable</u> | <u>Debt 6/30/00</u> |
|--|-------------------|------------------------|
| San Diego county Water Authority | 100.000 % | \$ 6,165,000 |
| Metropolitan Water district | 17.309 | 95,132,860 |
| San Diego Unitifed School District | 99.971 | 139,954,486 |
| San Diego Unified School District Lease Tax Obligations | 99.971 | 233,322,317 |
| Other Unified School Districts | Various | 57,055,517 |
| High School Districts | Various | 67,769,755 |
| School Districts Various | | 129,318,311 |
| City of San Diego | 99.967 | 19,163,674 |
| City of San Diego Open Space Park District | 99.967 | 49,513,655 |
| Other Cities | 99.030-100. | 5,616,902 |
| Municipal Water District | 99.999-100. | 17,249,977 |
| Vallecitos Water District, I.D. No. 5 | 99.845 | 34,946 |
| Alpine Sanitation district | 99.813 | 44,916 |
| Other Special districts | 100. | 12,755,709 |
| Community Facilities Districts | 100. | 518,782,723 |
| 1915 Act Bonds (Estimated) | 100. | 237,515,542 |
| TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | <u>1,589,396,290</u> |
| <i>Less:</i> | | |
| <i>City of San Diego Open Space Park District (100% self-supporting)</i> | | <i>(49,513,655)</i> |
| <i>Vallecitos Water district, I.D. No. 5 (100% self-supporting)</i> | | <u><i>(34,946)</i></u> |
| TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | <u>1,539,847,689</u> |

S-007

Computation of Direct and Overlapping Debt
June 30, 2000 (cont'd)

OVERLAPPING GENERAL FUND OBLIGATION DEBT:

| | | |
|--|---------------|---|
| San Diego County General Fund Obligations | 99.269 % | \$ 548,170,728 |
| San Diego County Pension Obligations | 99.269 | 334,347,050 |
| San Diego Superintendent of Schools Certificates of Participation | 96.269 | 2,139,579 |
| Community College District Certificates of Participation | 96.244-99.971 | 35,989,097 |
| Other Special District General Fund Obligations | 60.864-99.979 | 210,563,368 |
| City of San Diego General Fund Obligations | 99.967 | 401,802,361 |
| Other City General Fund Obligations | 98.993-100. | 360,971,356 |
| Fallbrook Sanitary District General Fund Obligations | 99.651 | 11,853,486 |
| Municipal Water District Certificates of Participation | 99.730-99.962 | <u>31,538,514</u> |
| TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT | | <u>\$ 1,937,375,539</u> |
| <i>Less:</i> | | |
| <i>Grossmont Union High School District (100% self-supporting from tax increment revenues)</i> | | <i>(7,175,901)</i> |
| <i>City self-supporting obligations</i> | | <i>(5,502,843)</i> |
| <i>Otay Municipal Water District Certificates of Participation</i> | | <u><i>(27,714,967)</i></u> |
| TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT | | <u>\$ 1,896,981,828</u> |
| GROSS COMBINED TOTAL DEBT | | <u>\$ 3,526,771,829</u> ⁽¹⁾ |
| NET COMBINED TOTAL DEBT | | <u>\$ 3,436,829,517</u> |

S-008

Ratios to 1999-00 Assessed Valuation:

| | |
|--|--------|
| Direct Debt (\$6,165,000) | 0.400% |
| Total Gross Direct and Overlapping Tax and Assessment Debt | 95.00% |
| Total Net Direct and Overlapping Tax and Assessment Debt | 92.00% |

S-009

Ratios to Adjusted Assessed Valuation:

| | |
|---------------------------|-------|
| Gross Combined Total Debt | 2.24% |
| Net Combined Total Debt | 2.18% |

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/00: \$6,743,023

S-010

Source: California Municipal Statistics, Inc. and San Diego County Water Authority

⁽¹⁾ Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

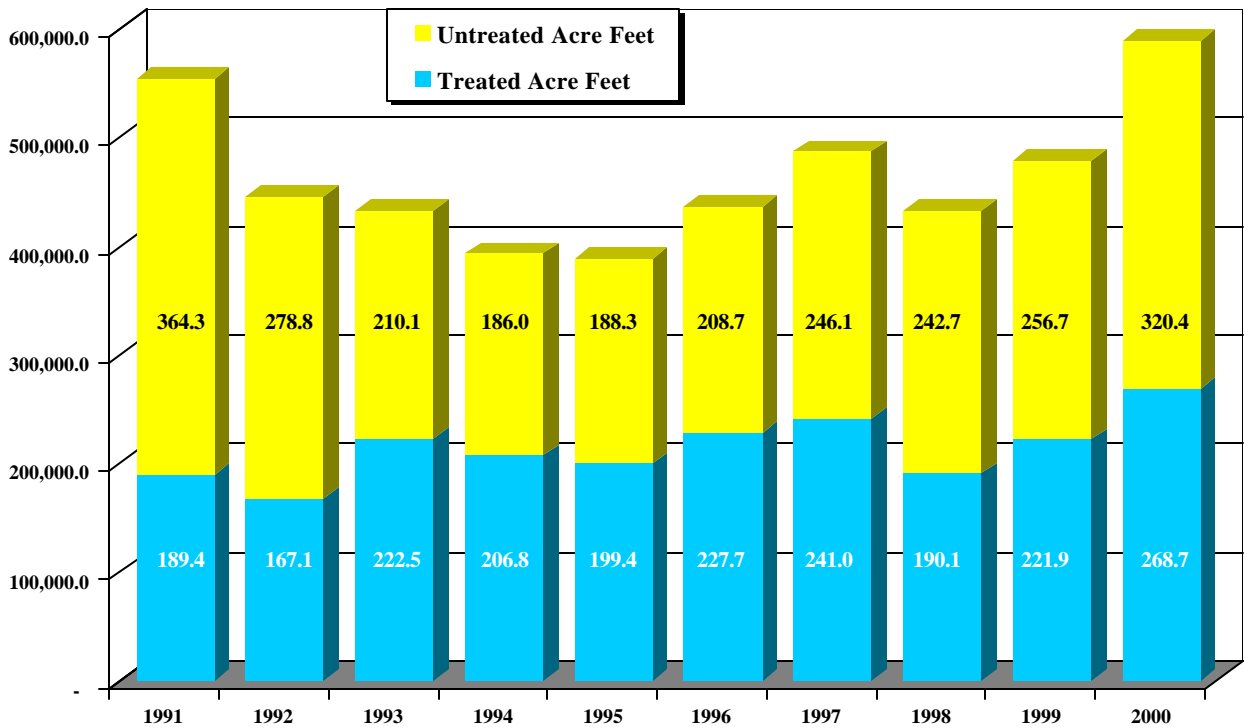
Table VII
Water Sales Classifications
Last Ten Fiscal Years

| Fiscal Year Ended | Treated | | Untreated | | Total | |
|-------------------|-----------|----------------|-----------|----------------|-----------|----------------|
| | Acre Feet | Value | Acre Feet | Value | Acre Feet | Sales |
| 2000 | 268,665.2 | \$ 120,230,449 | 320,368.9 | \$ 131,411,720 | 589,034.1 | \$ 251,642,169 |
| 1999 | 221,919.9 | 104,280,865 | 256,665.0 | 103,728,822 | 478,584.9 | 208,009,687 |
| 1998 | 190,092.6 | 87,498,126 | 242,665.9 | 100,838,497 | 432,758.5 | 188,336,623 |
| 1997 | 241,002.4 | 112,062,222 | 246,034.7 | 101,037,466 | 487,037.1 | 213,099,688 |
| 1996 | 227,668.7 | 106,038,091 | 208,676.8 | 84,730,426 | 436,345.5 | 190,768,517 |
| 1995 | 199,431.6 | 71,441,173 | 188,336.9 | 87,543,277 | 387,768.5 | 158,984,450 |
| 1994 | 206,758.2 | 78,670,440 | 185,975.1 | 82,691,687 | 392,733.3 | 161,362,127 |
| 1993 | 222,525.0 | 71,873,426 | 210,100.5 | 77,504,576 | 432,625.5 | 149,378,002 |
| 1992 | 167,092.9 | 42,351,236 | 278,776.0 | 81,175,606 | 445,868.9 | 123,526,842 |
| 1991 | 189,455.5 | 38,836,743 | 364,254.9 | 82,561,858 | 553,710.4 | 121,398,601 |

Source: San Diego County Water Authority

S-011

Water Sales by Acre Feet
 (Thousands)



S-011A

(1) Net of seasonal storage, agriculture and reclamation credits passed on to member agencies.

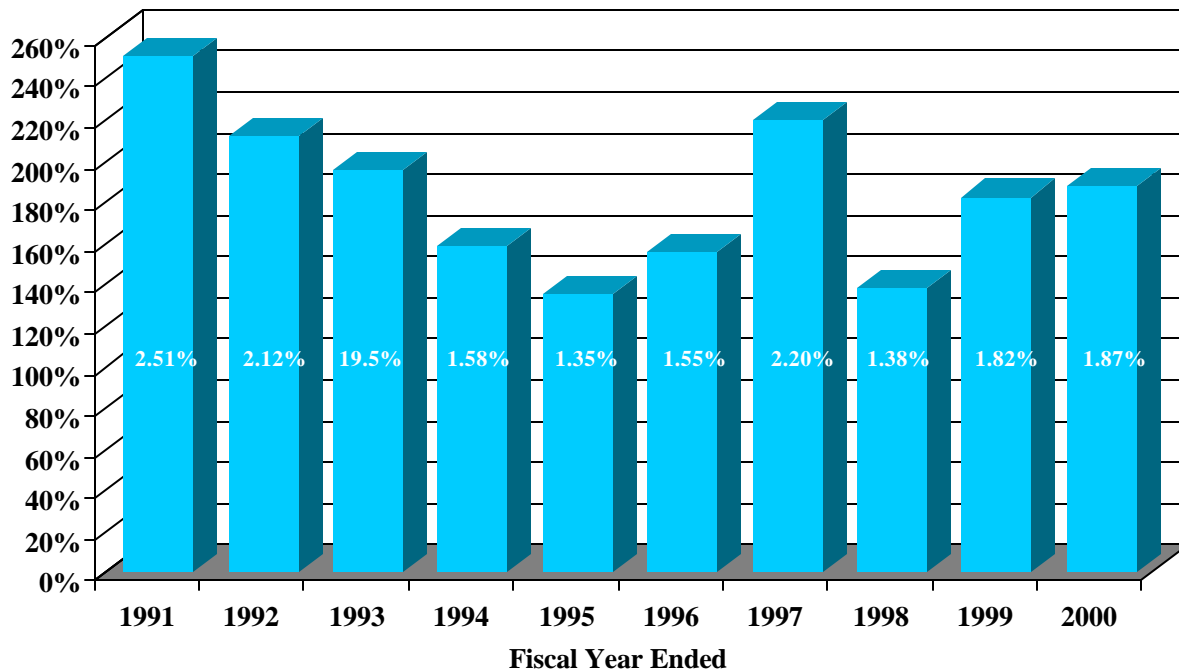
**Table VIII
Revenue Debt Coverage
Last Ten Fiscal Years**

| Fiscal Year Ended | Gross Revenues | Operating Expenses ⁽¹⁾ | Net Revenue Available for Debt Service | Debt Service Coverage | | | Coverage Factor |
|-------------------|-------------------------------|-----------------------------------|--|-----------------------|---------------|---------------|-----------------|
| | | | | Principal | Interest | Total | |
| 2000 | \$ 317,141,719 ⁽²⁾ | \$ 230,760,376 | \$ 86,381,343 | \$ 16,720,000 | \$ 29,461,126 | \$ 46,181,126 | 1.87 |
| 1999 | 269,900,928 | 191,999,772 | 77,901,156 | 15,400,000 | 27,354,957 | 42,754,957 | 1.82 |
| 1998 | 233,396,012 | 182,395,713 | 51,000,299 | 14,490,000 | 22,536,808 | 37,026,808 | 1.38 |
| 1997 | 272,848,083 | 190,250,869 | 82,597,214 | 13,780,000 | 23,792,815 | 37,572,815 | 2.20 |
| 1996 | 228,229,112 | 169,804,789 | 58,424,323 | 13,130,000 | 24,445,550 | 37,575,550 | 1.55 |
| 1995 | 196,004,931 | 143,971,528 | 52,033,403 | 12,802,181 | 25,880,670 | 38,682,851 | 1.35 |
| 1994 | 190,765,784 | 143,610,139 | 47,155,645 | 4,819,575 | 25,011,213 | 29,830,788 | 1.58 |
| 1993 | 181,799,025 | 134,275,252 | 47,523,773 | 369,575 | 23,970,839 | 24,340,414 | 1.95 |
| 1992 | 151,256,914 | 109,472,617 | 41,784,297 | 369,575 | 19,329,145 | 19,698,720 | 2.12 |
| 1991 | 128,966,549 | 103,469,565 | 25,496,984 | 369,575 | 9,788,398 | 10,157,973 | 2.51 |

Source: San Diego County Water Authority

S-012

Debt Service Coverage Percentage



S-012A

⁽¹⁾ Excludes depreciation and amortization expenses and net of applicable net tax receipts.

⁽²⁾ Computation changed as of Fiscal Year 2000 to exclude interest earned on debt proceeds.

Table IX
Principal Water Consumers for
Fiscal Years Ended June 30, 2000 and 1999

| <u>Fiscal Year Ended June 30, 2000</u> | | | <u>Fiscal Year Ended June 30, 1999</u> | | |
|--|------------------------------|----------------------------------|--|------------------------------|----------------------------------|
| <u>Member Agency</u> | <u>Sales (acre feet)</u> | <u>Percent of Water Sold</u> | <u>Member Agency</u> | <u>Sales (acre feet)</u> | <u>Percent of Water Sold</u> |
| City of San Diego | 208,181 | 35.34% | City of San Diego | 182,552 | 38.14% |
| Valley Center M.W.D. | 48,550 | 8.24% | Valley Center M.W.D. | 39,197 | 8.19% |
| Helix Water District | 42,175 | 7.16% | City of Oceanside | 29,949 | 6.26% |
| City of Oceanside | 32,073 | 5.44% | Helix Water District | 29,170 | 6.09% |
| Otay Water District | 29,911 | 5.08% | Otay Water District | 25,442 | 5.32% |
| Rainbow M.W.D. | 29,859 | 5.07% | Rainbow M.W.D. | 24,467 | 5.11% |
| City of Escondido | 27,144 | 4.61% | Padre Dam M.W.D. | 19,090 | 3.99% |
| Padre Dam M.W.D. | 21,801 | 3.70% | City of Escondido | 17,864 | 3.73% |
| Carlsbad M.W.D. | 19,951 | 3.39% | Carlsbad M.W.D. | 17,313 | 3.62% |
| Olivenhain M.W.D. | 19,433 | 3.30% | Olivenhain M.W.D. | 16,165 | 3.38% |
| Total Top Ten Customers | 479,078 | 81.33% | | 401,209 | 83.83% |
| Other Customers | 109,956 | 18.67% | | 77,376 | 16.17% |
| Total Water Sales | 589,034 | 100.00% | | 478,585 | 100.00% |

Source: San Diego County Water Authority

S-013

Table X
Demographic Statistics
As of June 30, 2000

| | |
|--|---------------|
| Number of Member Agencies..... | 23 |
| Cities..... | 6 |
| Water Districts..... | 4 |
| Irrigation Districts | 3 |
| Municipal Water Districts | 8 |
| Public Utility District..... | 1 |
| Federal Agency (Military Base)..... | 1 |
| The County of San Diego is an Ex-officio Member | |
| Water System | |
| Service Area..... | 908,968 acres |
| Population of Service Area | 2,783,000 |
| Number of Primary Pipelines..... | 5 |
| Miles of Pipeline (36 inches and larger) | 273 miles |
| Miles of Patrol Road Maintained | 270 miles |
| Number of Flow Control Facilities | 98 |
| Treated Water Pipeline Capacity..... | 391.1 MGD |
| Untreated Water Pipeline Capacity..... | 491.1 MGD |
| Average Daily Production (Fiscal Year 1999-2000) | 521 MGD |
| General Information | |
| Number of Employees..... | 198 |
| Average Years of Service of Employees..... | 6.5 years |

MGD: million gallons per day
Source: San Diego County Water Authority