



San Diego County Water Authority

***Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2003***



Prepared by the Finance Department

***Karen P. Brust
Director of Finance/Treasurer***

***James E. Munson
Controller***

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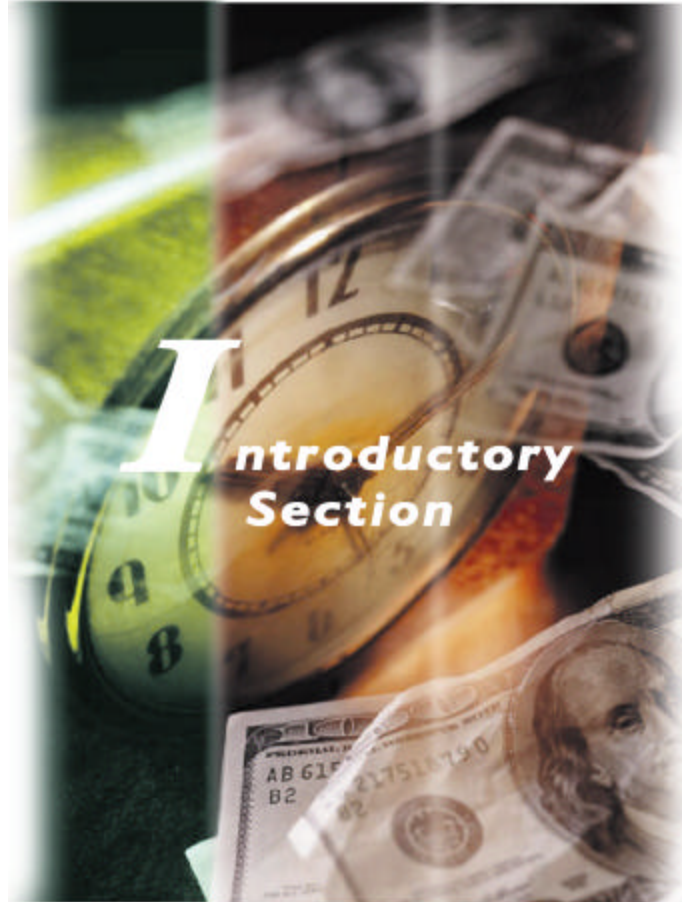
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San Diego County Water Authority



October 23, 2003

The Honorable Board of Directors
 San Diego County Water Authority
 4677 Overland Avenue
 San Diego, CA 92123

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the San Diego County Water Authority (Water Authority) for the Fiscal Year ended June 30, 2003. The purpose of the report is to provide the Board of Directors, the member agencies, the Water Authority's investors and other interested parties with reliable financial information about the Water Authority. The Water Authority's Finance Department has prepared the CAFR in accordance with generally accepted accounting principles. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with Water 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 Water Authority. The report is presented in three parts:

1. **Introductory Section** - Includes the Transmittal Letter with the Water Authority's Organizational Chart, and a listing of the Water Authority's Principal Officials, as well as other relevant information to assist the reader in understanding the Water Authority's management structure, operations and financial condition.
2. **Financial Section** - Includes the Independent Auditor's Report, Management's Discussion and Analysis of the Financial Statements, the Water Authority's Financial Statements for the Fiscal Years ended June 30, 2003 and 2002 and explanatory footnotes.
3. **Statistical Section** - Includes several tables of un-audited data representing the financial history of the Water Authority, as well as demographic and other miscellaneous statistics, generally presented on a multi-year basis.

REPORTING ENTITY

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

The Water Authority applies all applicable Governmental Accounting Standards Board (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.

Water Authority policy requires that an independent certified public accounting firm, selected by the Board of Directors, audit its financial statements on an annual basis. The independent auditor's report for the Fiscal Years ended June 30, 2003 and 2002 are presented in the Financial Section of this report.

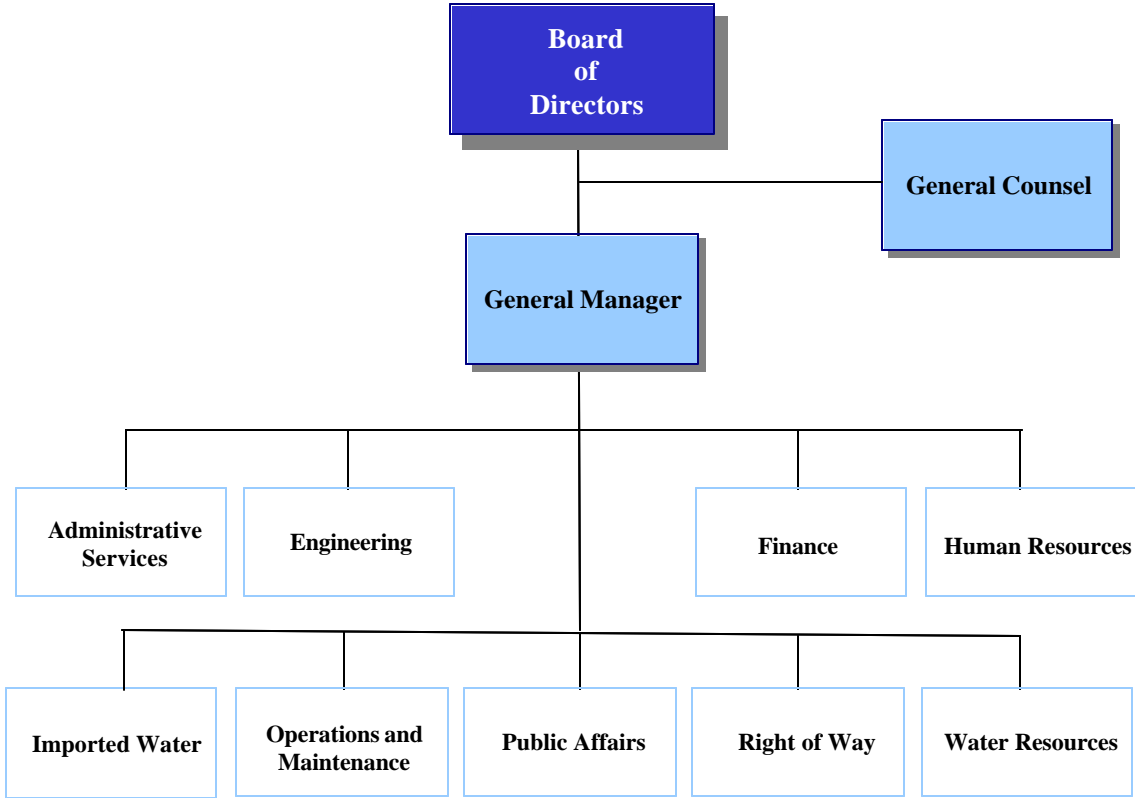
DISTRICT FORMATION AND ORGANIZATION

The San Diego County Water 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 Water Authority's service area encompasses approximately 909,000 acres. The Water 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 Water Authority provides the remaining 90 percent, which it purchases from outside sources. As a wholesaling entity, the Water Authority has no retail customers; it services only its member water agencies. The Water Authority has 23 member agencies, which consist of six cities, four water districts, three irrigation districts, eight municipal water districts, one public utility district and one federal agency. The County of San Diego is a Special Representative. The Water Authority obtains water from the Metropolitan Water District of Southern California (MWD), which derives its supply from the Colorado River and the State of California Water Project. The Water 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.

In addition, the Act authorizes the Water 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 Water Authority is empowered to fix, in each fiscal year, a Water Standby Availability Charge on land within the Water Authority's boundaries. The Water Standby Availability Charge is \$10 per acre per year, or \$10 for a parcel less than an acre. The Water 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 Water Authority may acquire, construct, operate, and maintain any of its facilities for such utilization. Pursuant to contract, the Water 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.

A 34-member Board of Directors (Board) representing the Water Authority’s member agencies governs the Water Authority. Each of the 23 member agencies has at least one voting representative on the Board. Additionally, the County of San Diego has one special representative with no voting rights. The City of San Diego has ten Directors, the Helix and Otay Water Districts have two Directors and all other agencies have one Director. 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.

**San Diego County Water Authority
Organizational Chart**



Officers of the Board of Directors begin service in January of odd-numbered years. To facilitate matters, most business coming before the Water 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 Water Authority has four Directors who also serve on the Metropolitan Water District’s Board. The Water Authority is also represented on the Colorado River Board, whose purpose is to protect California interests in the water and power resources of the Colorado River System.

The General Manager, who reports directly to the Board of Directors, manages the Water Authority’s day-to-day operations. The General Counsel also reports directly to the Board.

Reporting to the General Manager are the Deputy General Manager, Assistant 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.

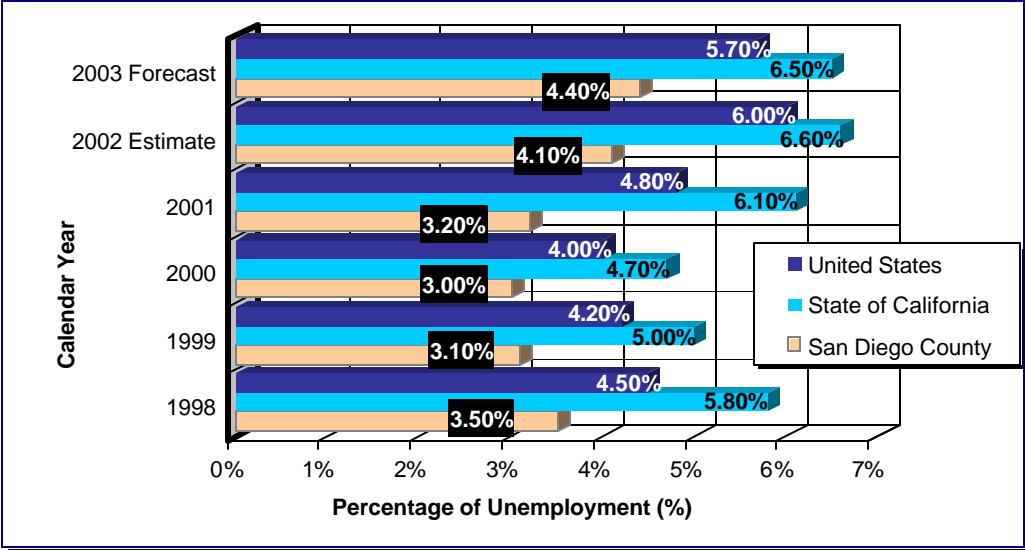
ECONOMIC CONDITIONS AND OUTLOOK

The San Diego region is one of the most diversified and innovative regional economies in the country. San Diego's leaders made a commitment in the 1980s to diversify the economy and encourage the growth of technology companies. No one could have predicted the success with which the region has developed key industries. San Diego's core industry sectors have become leading centers for biotechnology, communications and software development.

Stimulated by the research being done at San Diego's world-class universities and institutes, and supported by a business-friendly public sector, the San Diego region's economy is recognized as one of the best for starting a business or pursuing a career. One of the world's best climates is conducive to innovation and entrepreneurship. Sunshine coupled with the serenity of the Pacific Ocean, and the ability to move from beach to mountains to desert within a few hours provide ample inspiration for all who call San Diego home. The combination of a thriving economy, a legendary lifestyle and inviting communities truly makes San Diego one of the most beautiful counties in the country.

Although San Diego County's personal income has shown gains compared to the rest of California and the country, an adjustment for cost of living shows an erosion of "real" pay. Per capita income growth has not kept up with cost-of-living increases and higher inflation.

Unemployment Rates



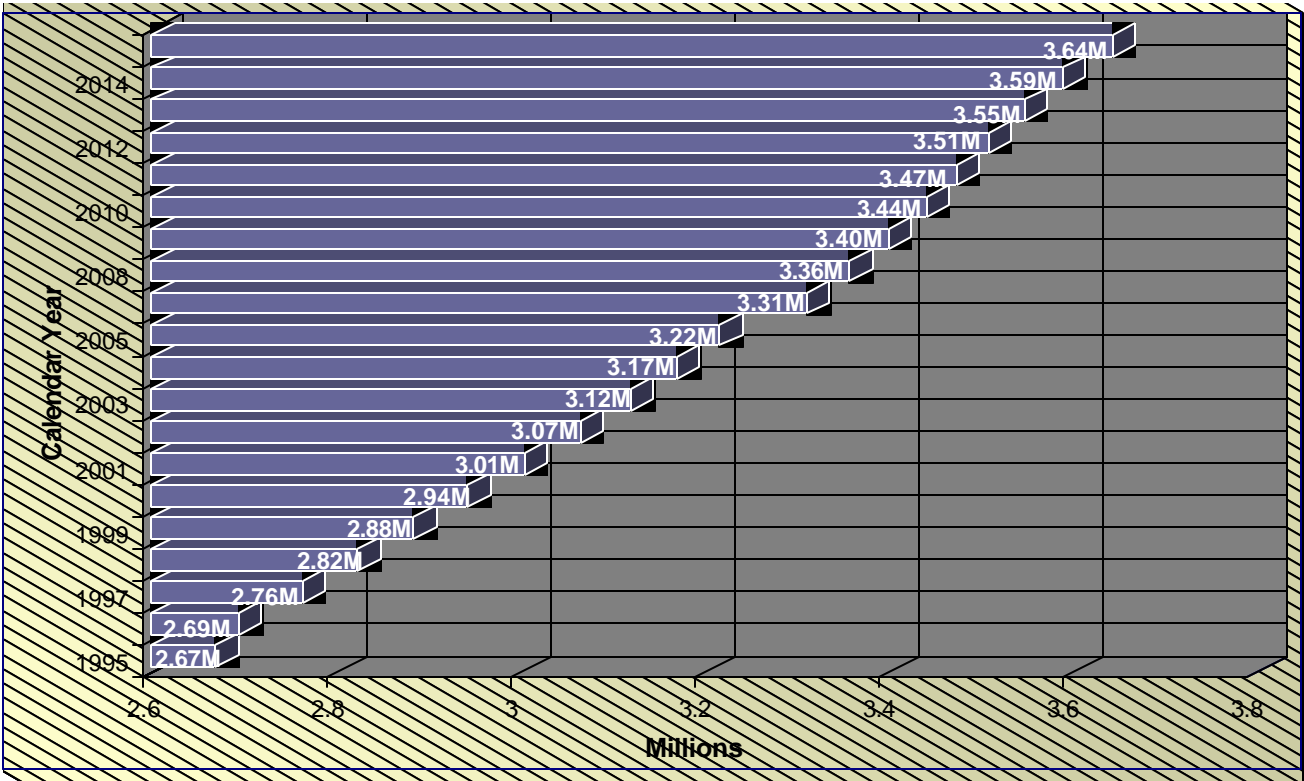
Per capita income reached an estimated \$34,848 in 2002, a 2.4 percent increase from the previous year. The forecast for 2003 shows per capita income rising 3.1 percent and median household income is estimated to reach \$52,100.

San Diego’s population from 1995 through 2015 has an estimated slow moving upward trend. San Diego County’s population in 2001 was 3,005,038 It is estimated in 2003 that 116,000 new residents will be added. San Diego’s population continues to rank as the nation’s fourth most populous county and the 17th largest metropolitan area.

Two aspects must be considered when viewing the changes in population, natural increase and migration to the County. Natural increase, the number of births minus deaths, has remained steady between 33,000 and 24,000 over recent years. On the other hand, migration figures tend to vary more due to economy strength and job opportunities.

An anticipated 18,000 immigrants, and an estimated 10,000 domestic migrants are expected in 2003. Regardless of the high cost of living, San Diego’s location and economic potential is attractive to many.

Changes in San Diego Population



Despite the lack of available land, residential housing construction should remain fairly strong in Fiscal Year 2003-2004, with affordability concerns keeping the market in check. The forecast shows, approximately 15,000 units will be permitted in 2003, an increase of 5.4 percent from 2002. Nearly 9,000 units will be for single-family dwelling, and the remaining 6,000 will go to multi-family homes (duplexes, 3-4 unit structures and condominiums with 5 or more units). The strength of the local economy, low interest rates and an under-supply of land has led San Diego County home values to significantly appreciate. According to the San Diego Regional Chamber of Commerce, the average value of a single-family home is \$422,000. Low mortgage

rates averaging about 6.05 percent, have triggered a refinancing boom for San Diego homeowners.

Although interest rates have declined, housing affordability and household debt are still a problem. Home values have appreciated at a much faster rate than income levels over the past 30 years. This rapid appreciation of homes has left many would be buyers out of the market. This also puts additional strain on household budgets and drives some families deeper into debt.

ACCOMPLISHMENTS IN FISCAL YEAR 2002-2003

The San Diego County Water Authority is acting with its member agencies to ensure that our region has a safe, reliable and sufficient water supply, which is necessary to maintain the County's \$126 billion economy, job base, environment, and quality of life. The Water Authority worked in many ways during the past year to fulfill this mission. In general, the Water Authority focused on the following areas: diversification of our water supply, excellent water quality, cost-effectiveness, dependable infrastructure, and "paying for what we get and getting what we pay for" from our suppliers. Specific areas in which the Water Authority acted during the past year include:

The draft Regional Facilities Master Plan (Master Plan) Report is complete after years of development, allowing the next phase of the environmental analysis of the Master Plan to begin. The Master Plan studied supply options and the facilities required to meet the San Diego region's water needs through 2030. It relied upon SANDAG population forecasts and considered historic weather patterns, anticipated and planned water projects in the region, planned future land uses and other demographic information to forecast regional water demand and the availability of imported water supplies. The Board considered several alternatives presented in the plan and identified seawater desalination as the best apparent alternative based on its cost-effectiveness and the degree of water reliability it could provide to the region. A final Environmental Impact Report (EIR), taking into account agency and public comment, is expected to be ready for Board action by the end of calendar year 2003. Once the EIR is certified, the Board can adopt the Master Plan and begin selecting the projects to be implemented and added to the Capital Improvement Program (CIP). The Adopted Capital Budget for the next two fiscal years includes approximately \$15 million for planning of the Master Plan alternatives.

Identified as the best alternative in the Master Plan, the Water Authority has established a Seawater Desalination Program to address the development of seawater desalination projects in San Diego County. As part of this program, the Water Authority is currently developing the Water Authority's Seawater Desalination Project (Project) at Encina. The Project would be built adjacent to the Encina Power Station in Carlsbad. By locating adjacent to a coastal power station, the Project can utilize existing seawater intake and discharge infrastructure at the power plant site. The Project would be the largest seawater desalination facility in the Western Hemisphere, producing 50 million gallons per day, or 56,000 acre-feet of desalinated water annually. This new water supply would represent nearly 10 percent of the region's imported water needs. Water from the Project could be delivered to coastal cities including Carlsbad and Oceanside and the Water Authority's regional aqueduct system. The Project would be a regional project, where the desalination plant component of the Project will be constructed in partnership with a private entity, Poseidon Resources Corporation. Specifically, the desalination plant will be developed, financed, constructed, and operated by Poseidon, for the Water Authority, for a minimum period of five years as part of an extended turn-key arrangement. At the end of the fifth year, the Water Authority plans to purchase Poseidon's interest in the desalination plant.

The conveyance facility component of the Project will be constructed and owned by the Water Authority from the outset. Project environmental compliance activities are scheduled to begin in 2003 and the Project is scheduled to be fully on-line by early 2008. In addition to the development of the Water Authority's Seawater Desalination Project at Encina, the Water Authority is planning detailed evaluations of other coastal power station locations in San Diego County that may be suitable for siting a regional desalination facility. These locations include the South Bay Power Plant in Chula Vista and the San Onofre Nuclear Generating Station at the north end of San Diego County.

Guided by its 2000 Urban Water Management Plan, the Water Authority is working with its member agencies to reduce San Diego County's dependence on imported supplies by expanding water sources and storage within the region. The Water Authority offers funding and technical support to local cities and other agencies for projects that increase the amount of water resulting from recycling, groundwater development, and desalination projects. The Water Authority provides similar assistance to programs that encourage water conservation. According to the 2000 Urban Water Management Plan, San Diego County can count on 224,400 acre-feet per year in 2020 from local reservoirs, recycling, groundwater, and seawater desalination; this total represents 28 percent of the projected regional water demand in that year. Since adoption of the 2000 Urban Water Management Plan, the Water Authority has taken steps to expand the development of seawater desalination beyond the goal established in the 2000 Urban Water Management Plan. The Water Authority is focusing its efforts on development of the Carlsbad Seawater Desalination Project, as discussed in the previous paragraph.

Through the Water Authority's leadership, urban per-capita water use is actually lower than it was a dozen years ago when the Water Authority first put in place Best Management Practices for conservation. In 2002, the Water Authority's conservation programs, which include Ultra Low Flush Toilet, water-saving showerheads and Residential High-Efficiency Clothes Washer Incentive programs, saved nearly 38,000 acre-feet of water. One acre-foot is equal to 326,000 gallons of water, the amount of water used by two typical households in a year. Furthermore, the Water Authority continues to fund a comprehensive school education program for the benefit of more than 100,000 area students and teachers each year.

In April 2003, a comprehensive evaluation of the Water Authority's reserve policies was conducted and the Administrative Code was amended to reflect a change in the Operating Fund reserve policy from a 60-day minimum to a 45-day maximum. This change is a result of the Water Authority's new rate structure by which the Water Authority is less susceptible to variability in revenue streams due to the fixed components of the water rate. As a result of this policy change, a refund of \$14 million was distributed to the member agencies in May 2003. The Water Authority's financial strength is directly aligned with the Board's commitment to increase rates when it becomes necessary in light of its growing infrastructure. In recent years, due to the dry weather conditions, the Water Authority has exceeded its projections in water sales. This unanticipated revenue will support the one-time Emergency Storage Project dam fills that will total \$7.4 million in the next two years. Additionally, the first Water Transfer up-front payment of \$10 million is programmed in the multi-year budget and will be paid out of Operating Fund reserves. The Board's policy related to rate increases is supportive of meeting revenue requirements in a manner that does not spike rates.

The Board's dedication to financial management has resulted in the Water Authority's very strong credit ratings of AA- by Moody's and Fitch and AA by Standard & Poor's and reflects the

strength of the Water Authority's debt instruments in the financial markets. Standard & Poor's upgraded the Water Authority in May 2002, prior to the issuance of \$300 million in new money to fund the CIP, citing confidence in the Water Authority's leadership, strong financial condition, and in its plans for the future. In addition, the Water Authority was acknowledged at the state and national levels for its financial practices after receiving numerous budget, financial reporting and investment awards this year. It was also recognized by the Governmental Accounting Standards Board for implementing a new governmental standard (GASB 34) two years prior to implementation, being one of only 75 special districts in the nation to implement early.

MAJOR INITIATIVE - EMERGENCY STORAGE PROJECT

The \$827 million Emergency Storage Project (ESP) is an important investment for the future reliability of San Diego County's water supply. It is part of the Water Authority's on-going \$1.231 billion Capital Improvement Program. 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 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.

Design of the Phase I components, the Olivenhain Dam, pipelines, and pump station began in Fiscal Year 1999 and has progressed to the construction phase, transitioning into the design of Phase II. In fact, the 318 foot tall Olivenhain Dam, the tallest roller-compacted concrete dam in North America, achieved substantial completion on schedule in order to allow water fill to begin on August 6, 2003. Fill is anticipated to be completed in June 2004. The dam is designed to remain operational even after a magnitude 7.25 earthquake. Overall, the ESP, scheduled for completion in 2011, will add 90,100 acre-feet in storage capacity.



THE WATER AUTHORITY'S FUTURE

For the past decade, the Water Authority has reached significant milestones in the water industry and the culmination of these accomplishments, especially in the past year, is changing the Water Authority's role. The Water Authority is transitioning from a transportation agency into a diversified service provider that includes water supply, storage, possibly treatment, and is looking at regional energy issues. With this transition, the Water Authority is taking a fresh look at its mix of staffing and consultants to ensure that the resources needed to meet the growing needs of the Water Authority are provided with a balanced approach related to dollars and



expertise. An Information Technology Strategic Plan is being developed to support the Water Authority's decisions related to the varied core business systems and their integration, which comprise the backbone of many of the Water Authority's processes. Technology is of critical importance in meeting the Water Authority's requirements.

The historic Water Authority-Imperial Irrigation District (IID) Water Transfer provides benefits to San Diego and Imperial Counties and the entire State of California. The transfer enhances water supply reliability for Southern California and provides supply diversity to the San Diego region. It is the cornerstone of the Quantification Settlement Agreement (QSA), California's plan to live within its Colorado River basic annual apportionment of 4.4 million acre-feet. On December 31, 2002, the Water Authority and the Imperial Irrigation District agreed to revised terms under the 1998 Water Authority-IID Water Transfer Agreement. The revisions restructured the agreement in the first 15 years to minimize environmental impacts of the transfer on the Salton Sea. Imperial Irrigation District, Coachella Valley Water District, and the Water Authority pay \$163 million to satisfy environmental mitigation requirements. The Water Authority's share of the \$163 million is \$64 million.

New terms for the QSA were negotiated in 2003. The terms include an innovative program for restoration of the Salton Sea, in which the State of California would purchase up to 1.6 million acre-feet of water from the Imperial Irrigation District for sale to the Metropolitan Water District to generate up to \$300 million for the restoration program. MWD will also pay \$20 per acre-foot for surplus supplies to the Salton Sea Restoration Fund. The Water Authority, IID and Coachella Valley Water District are contributing \$30 million to the restoration fund.

The State of California (State) has provided \$20 million this year to fund the development of a restoration plan by 2006 in addition to approving legislation that commits the State to a restoration path for the Sea and provides limited relief for QSA projects from fully protected species statutes. The bills in the QSA legislative package are Senate Bills 277, 317 and 654.

As part of the QSA terms, MWD has assigned its rights to conserved water from construction of the All-American and Coachella Canal Lining Projects to the Water Authority, which will provide a new water supply of 77,700 acre-feet annually to the Authority for 110 years.

The water agencies approved the QSA on October 10, 2003.



The IID water transfer will provide the Water Authority, through a modified ramp-up schedule, 200,000 acre-feet of water per year by the end of the 19th year of the agreement. The Water Authority will pay IID \$258 per acre-foot plus an up-front payment of \$10 million to help offset socioeconomic impacts associated with temporary land fallowing. At the end of the fifth year of the agreement, the Water Authority will prepay IID an additional \$10 million for future deliveries of water. IID will credit the Water Authority for its up-front payments during years 16 through 45. The first up-front payment will be made with Operating Fund reserves during the multi-year budget period.

Most recently, a delegation of Board Members met with federal legislators in Washington, D.C. to solicit funding for the Water Authority's seawater desalination program. State and federal legislation is supporting this technology as a means of water resource diversification. The Water Authority is pursuing financial incentives from MWD in the amount of \$250 per acre-foot covering a 25-year period for water produced through desalination. On the local level, the Water Authority partnered with the City of San Diego and Metropolitan Waste Water District in an outreach effort to attract more large construction contractors to the region with a combined \$2 billion opportunity.

The Long Range Financing Plan sets forth the policies for funding the Water Authority's future operating and capital costs. It will be updated in the Spring 2004 in step with the Master Plan adoption. The Water Authority's Long Range Financing Plan is comprehensive in nature and strategically plans primarily for the funding of the Water Authority's CIP. It optimizes the mix of funding needed to ensure that the Water Authority continues to meet its financial responsibilities, yet is able to successfully fulfill its role as water provider to the San Diego region.

ACCOUNTING SYSTEM

The Finance Department is responsible for providing the financial services for the Water 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, and special financial analyses. The Water Authority's books and records are maintained on an enterprise basis, as it is the intent of the Board to manage the Water 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 revenues are earned or expenses are incurred.

INTERNAL CONTROLS

The Water Authority's management is responsible for establishing and maintaining a system of internal controls designed to safeguard the Water 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 judgment 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 Water Authority's assets and provides reasonable assurance that accounting transactions are properly recorded.

BUDGETARY CONTROLS

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

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

CASH MANAGEMENT

The Water 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 Water Authority's Board of Directors, as well as certain other types of investments which were not made during this Fiscal Year ended June 30, 2003. The Board of Directors further resolved that funds deposited with the State of California Local Agency Investment Fund shall not exceed \$40,000,000 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, 2003, was \$19,954,964 compared to \$16,880,033 from the last fiscal year. Average yield for the Fiscal Year ended June 30, 2003 was 3.23 percent down from 4.27 percent for the Fiscal Year ended June 30, 2002.

RISK MANAGEMENT

The Water 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 Water Authority is a participant in the Association of California Water Agencies – Joint Powers Insurance Agency (ACWA-JPIA) for the purpose of providing multiple lines of insurance coverage for the Water Authority including: liability insurance, which consists of general and auto; property insurance; and workers compensation. The Water Authority had a \$25,000 retrospective allocation point (self-insured retention) per claim for general and automobile liability for the years ended June 30, 2003 and 2002 with a total coverage limit of \$50,000,000. The property insurance program provided for up to \$50,000,000 in coverage, which included boiler and machinery coverage and had a \$25,000 retrospective allocation point per claim. For workers compensation coverage, for claims associated with employee injuries and employers liability, the Water Authority maintained a \$15,000 retrospective allocation point (self-insured retention) per claim with limits of coverage provided by ACWA-JPIA per statutory requirements of the State of California.

In 1999, the Water Authority entered into an Owner Controlled Insurance Program (OCIP) to provide Worker's Compensation and general liability insurance to the contractors and professional liability, pollution liability, and builder's risk for the Emergency Storage Program. Premiums paid in fiscal year ended June 30, 2003 and 2002 were \$3,564,340 and \$2,221,924, respectively. Premiums are adjusted annually based on loss experience. The general liability deductible is \$250,000 per occurrence. The total coverage limit is \$2,000,000 per occurrence and \$4,000,000 aggregate. The Workers' Compensation Program under OCIP 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 Water Authority has elected to make contributions on behalf of its employees. The Water 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 Water Authority has adopted Deferred Compensation Plans (Plans) in accordance with Sections 401(a) and 457(f) 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's assets and corresponding liability to the participants are no longer recognized in the accompanying financial statements. At June 30, 2003 and 2002, assets of the Plans totaled \$12,606,000 and \$10,981,000, 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**

- Bernie Rhinerson.....Chair of Board of Directors
- James H. Bond Vice Chair of Board of Directors
- George I. Loveland Secretary of Board of Directors
- Maureen A. Stapleton.....General Manager
- Daniel S. Hentschke General Counsel
- Paul Lanspery Deputy General Manager
- Dennis Cushman..... Assistant General Manager
- Karen P. Brust..... Director of Finance/Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego County
Water Authority, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

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



Edward Harrington

President

Jeffrey L. Esser

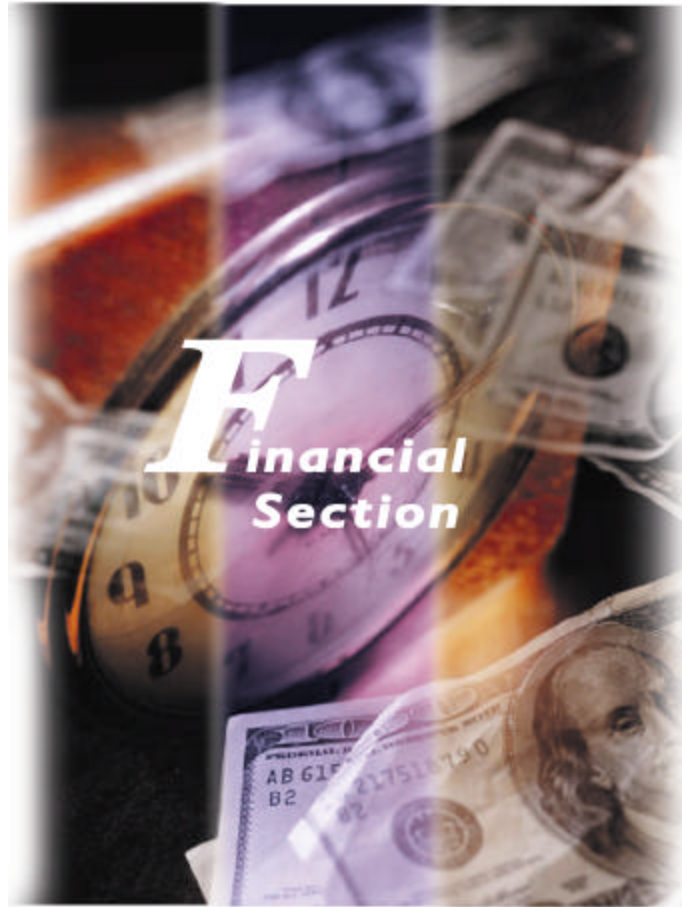
Executive Director



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San Diego County
Water Authority



San Diego County Water Authority

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 Water Authority) as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These basic financial statements are the responsibility of the management of the Water Authority. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2003 and 2002, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

Board of Directors
San Diego County Water Authority
Page Two

In accordance with *Government Auditing Standards*, we have also issued a report dated August 29, 2003 on our consideration of the Water 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.

Conrad and Associates, L.L.P.

August 29, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board (GASB) has recently issued an accounting standard referred to as GASB Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. GASB Number 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 standard has minor impacts upon the financial reporting and accounting performed by the San Diego County Water Authority (Water Authority). As a result, GASB Number 34 required changes to this year's Financial Statements and the June 30, 2002 Financial Statements as follows:

1. The format and the title of the basic Balance Sheet have been changed to Statements 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 Total Liabilities arriving at the Total Net Assets. The category "Equity" has been changed to "Net Assets." However, it retains the same categorization of balances.
2. The other major change is the treatment of 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. They are now reported on the Statements 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 (CAFR) presents management's discussion and analysis of the Water Authority's financial performance during the fiscal year ended June 30, 2003. GASB requires that when presenting comparative financial statements in the Management's Discussion and Analysis, it is required to present comparative financial information and analysis for both years. Therefore, the Financial Highlights section below contains the discussion of the June 30, 2003 financial performance, followed by the June 30, 2002 financial performance. Please read it in conjunction with the Transmittal Letter at the front of this report and the Water Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2003

In fiscal year ended June 30, 2003, the Water Authority's total net assets increased by approximately \$63.6 million, which is directly related to the \$63.6 million increase in net assets as reported on the Statements of Revenues, Expenses and Changes in Net Assets. As reported in the Statements of Net Assets, the total value of total current assets decreased by \$7.4 million, which was caused by a \$17.9 million decrease in amounts due from member agencies and other receivables, a \$14.3 million decrease in cash and cash equivalents, a \$25.0 million increase in investments and a \$0.2 million decrease in interest and taxes receivable and inventory. Total noncurrent assets increased by \$3.5 million, which was caused by a \$166.8 million reduction in restricted cash and cash equivalents, a \$41.9 million increase in restricted investments, a \$124.9 million increase in construction in progress (which reports accomplishments in the Capital Improvement Program), a \$4.1 million increase in land and other capital assets, net of depreciation, and a \$0.6 million decrease in unamortized bond issuance costs. Total current liabilities decreased by \$36.6 million, which was caused by a \$29.3 million reduction in accounts payable and other liabilities, an approximate \$0.4 million decrease in interest payable, an

increase of \$1.4 million in construction deposits and an \$8.3 million decrease in the current portion of long-term debt. Noncurrent liabilities decreased by \$30.8 million, which was caused by a \$31.1 million decrease in long-term debt and a \$0.3 million increase in compensated absences.

San Diego County Water Authority's Net Assets

(in millions)

	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Current and other assets	\$ 549.3	\$ 682.2	\$ 389.4
Capital assets	1,195.1	1,066.1	948.0
Total assets	<u>1,744.4</u>	<u>1,748.3</u>	<u>1,337.4</u>
Long-term debt outstanding ⁽¹⁾	854.6	894.0	580.8
Other liabilities	68.7	96.8	78.0
Total liabilities	<u>923.3</u>	<u>990.8</u>	<u>658.8</u>
Invested in capital assets, net of related debt	522.0	501.2	447.7
Restricted	246.7	212.3	193.8
Unrestricted	52.4	44.0	37.1
Total net assets	<u>\$ 821.1</u>	<u>\$ 757.5</u>	<u>\$ 678.6</u>

Note: ⁽¹⁾ Includes additional minor long-term liabilities.

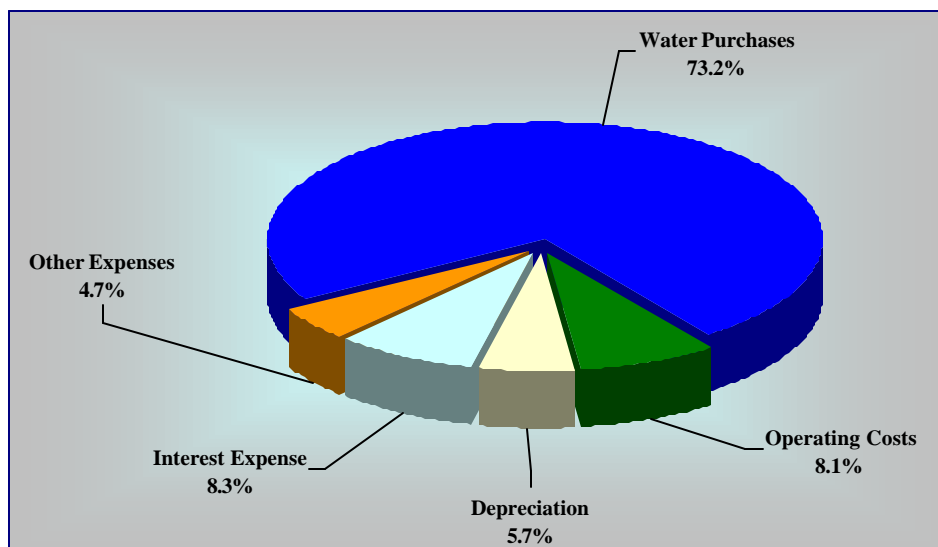
Total revenues as reported on the Statements of Revenues, Expenses and Changes in Net Assets for fiscal year ended June 30, 2003, were \$370.3 million, which included total operating revenues of \$283.0 million, and \$87.3 million of nonoperating revenues, including Capacity Charges, Water Standby Availability Charges, Taxes, Infrastructure Access Charges and investment income. Operating revenues are \$11.5 million lower than the prior year primarily because water sales to our member agencies were 44,000 acre-feet lower when compared with the prior year. In addition, effective January 1, 2003, the Water Authority implemented two new fixed charges (Customer Service Charge and Storage Charge), and reduced its water surcharge, which removed some of the variability from the Water Authority's revenues.

Nonoperating revenues and expenses for fiscal year ended June 30, 2003 decreased by \$18.2 million when compared with the prior fiscal year. This decrease was caused by a \$0.5 million increase in property taxes and in-lieu charges, a \$3.1 million increase in investment income, and a \$7.8 million increase in interest expense, which is net of a \$2.7 million increase in capitalized interest, and one-time refund of \$14.0 million to the member agencies as a result of the Board of Directors changing the Water Authority's operating reserve maximum fund balance to 45 days. The \$7.8 million increase in interest expense is the direct result of the addition of \$300.0 million of Water Revenue Certificates of Participation issued in June 2002. Capital contributions include the revenues that are restricted for the Capital Improvement Program, which decreased by \$1.9 million. This decrease was caused by a \$1.4 million increase in Capacity Charges and a \$3.3 million reduction in Capital Contributions in Aid of Construction. The total amount transferred as an increase in net assets was reduced by \$15.3 million from \$78.9 million to \$63.6 million. This decrease is caused by a \$4.8 million increase in operating income netted against an \$18.2

million reduction in total nonoperating revenues (expenses) and a \$1.9 million reduction in capital contributions.

Total operating and nonoperating expenses for fiscal year ended June 30, 2003 were \$306.7 million (includes nonoperating expenses, interest expenses and other expenses). Water purchases were \$224.3 million or 73.2 percent, operating costs were \$24.8 million or 8.1 percent, other expenses were \$14.3 million or 4.7 percent, depreciation and amortization charges were \$17.7 million or 5.7 percent and interest expense on the Water Authority's outstanding debt was \$25.6 million, net of \$15.6 million capitalized interest, or 8.3 percent of the Water Authority's total cost of expenditures.

Functional Expenses for Fiscal Year Ended June 30, 2003



FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2002

In fiscal year ended June 30, 2002, the Water Authority's total net assets increased by approximately \$79.0 million, which is directly related to the \$79.0 million increase in net assets as reported on the Statements of Revenues, Expenses and Changes in Net Assets. As reported in the Statements of Net Assets, the value of total current assets increased by approximately \$20.0 million, which is caused by an \$18.0 million increase in cash and cash equivalents and a \$3.0 million increase in amounts due from member agencies and other receivables offset by a net \$1.0 million reduction in interest receivable and water in storage inventory. The value of noncurrent assets increased by approximately \$391.0 million, which is made up of the difference between an increase of \$118.0 million in capital assets (which reports accomplishments in the Capital Improvement Program), a \$271.0 million net increase in restricted cash and cash equivalents and restricted investments, and an approximately \$2.0 million increase in unamortized bond issuance costs. Accounts payable and other liabilities have increased by \$18.0 million primarily because of increased water purchases and other liabilities for construction activities in the Capital Improvement Program. The current portion of long-term debt increased by \$58.0 million as a result of the issuance of an additional \$40.0 million of Commercial Paper and an increase of

\$18.0 million for the 2002 Certificates of Participation issued in June 2002 payable during Fiscal Year 2002-2003.

The Water Authority issued an additional \$300.0 million in Water Revenue Certificates of Participation during fiscal year ending June 30, 2002, to finance anticipated construction expenditures on the Capital Improvement Program during the next three years. This issuance is the primary cause for the \$271.0 million increase in restricted cash and cash equivalents and restricted investments noted in the noncurrent assets and \$255.0 million increase in the long-term debt noted in the noncurrent liabilities. Total net assets increased by \$79.0 million as a result of the increase in net assets as reported on the Statements of Revenues, Expenses and Changes in Net Assets.

Total revenues as reported on the Statements of Revenues, Expenses and Changes in Net Assets for fiscal year ended June 30, 2002, were \$380.0 million, which included total operating revenues of \$294.0 million, and nonoperating revenues of \$86.0 million, including Capacity Charges, Water Standby Availability Charges, Taxes, Infrastructure Access Charges and investment income.

Nonoperating revenues and expenses for fiscal year ended June 30, 2002, decreased by approximately \$1.1 million when compared with the prior fiscal year. This decrease is caused by a \$4.8 million decrease in investment income due to substantially reduced interest rates, a \$3.3 million reduction in interest expense, which resulted, for the most part, from a \$2.2 million increase in capitalized interest, a \$0.4 million decrease in other income, a \$0.2 million increase in Infrastructure Access Charges, a \$0.5 million increase in Taxes, and \$0.1 million reduction in other expenses. Capital contributions include the revenues that are restricted for the Capital Improvement Program, which increased by \$0.2 million. This increase was caused by a \$1.1 million increase in Capital Contributions in Aid of Construction and a \$0.9 million decrease in Capacity Charge revenues. The total amount transferred as an increase in net assets was reduced by \$4.3 million from \$83.2 million to \$78.9 million. This decrease is caused by a \$3.4 million decrease in operating income and \$1.1 million decrease in total nonoperating revenues offset by a \$0.2 million increase in capital contributions.

Total operating and nonoperating expenses for fiscal year ended June 30, 2002, were \$301.2 million (includes nonoperating revenues, interest and other expenditures). Water purchases were \$242.3 million or 80.5 percent, operating costs were \$23.0 million or 7.6 percent, other expenses were \$0.3 million or less than one percent, depreciation and amortization expenses were \$17.8 million or 5.9 percent and interest expense on the Water Authority's outstanding debt was \$17.8 million or 5.9 percent of the Water Authority's total cost of expenditures.

San Diego County Water Authority's Increase in Net Assets

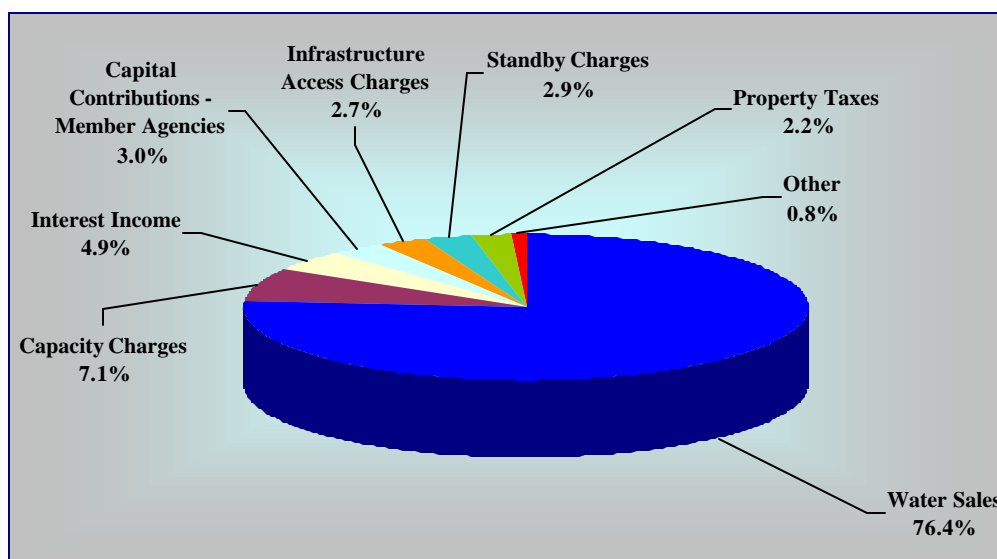
	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Operating revenues:			
Water sales	\$ 283.0	\$ 294.5	\$ 266.5
Total operating revenues	<u>283.0</u>	<u>294.5</u>	<u>266.5</u>
Operating expenses:			
Cost of sales	224.3	242.3	214.4
Depreciation and amortization	17.7	17.8	15.3
Operations and maintenance	9.1	7.6	7.1
Planning	3.8	2.2	2.1
General and administrative	11.9	13.1	12.6
Total operating expenses	<u>266.8</u>	<u>283.0</u>	<u>251.5</u>
Operating income	16.2	11.5	15.0
Nonoperating revenues (expenses):			
Property taxes and in-lieu charges	8.1	7.5	7.1
Infrastructure access charges	10.1	10.0	9.8
Investment income	20.0	16.9	21.6
Other income	1.0	1.1	1.5
Interest expense	(25.6)	(17.8)	(21.1)
Other expenses	(0.3)	(0.3)	(0.5)
Operating reserve distribution	(14.0)	-	-
Total nonoperating revenues (expenses)	<u>(0.7)</u>	<u>17.4</u>	<u>18.4</u>
Income before other revenues, expenses, gains, losses, and transfers	15.5	28.9	33.4
Capital contributions	<u>48.1</u>	<u>50.0</u>	<u>49.8</u>
Increase (decrease) in net assets	63.6	78.9	83.2
Net assets at beginning of year	<u>757.5</u>	<u>678.6</u>	<u>595.4</u>
Net assets at end of year	<u>\$ 821.1</u>	<u>\$ 757.5</u>	<u>\$ 678.6</u>

BUDGET ANALYSIS AND VARIANCES

Water revenues for fiscal year ended June 30, 2003 were \$283.0 million, which was \$2.1 million under budget. The Fiscal Year 2002-2003 Adopted Budget anticipated 612,000 acre-feet of water to be sold in comparison to the 615,000 acre-feet of water sold during the year, for an increase of 3,000 acre-feet of water sold. This increase in water sales was caused by increased economic activity and new housing starts in the Water Authority's service area. The water revenues reflect the effects of changes in the Water Authority's Water Rates and Charges. In January 2003, the Water Authority's Board of Directors implemented two new fixed charges, a Storage Charge and Customer Service Charge, to add more dependability to revenues and to reduce the variability related to water sales.

The Water Authority's final revenue total for fiscal year ended June 30, 2003 was \$370.3 million, which was \$5.8 million under the Fiscal Year 2002-2003 revenue budget of \$376.1 million. The \$5.8 million unfavorable variance was caused by the following revenue categories and the amounts that were under budget: water sales \$2.1 million, interest income \$1.6 million, Capacity Charges \$3.3 million and Infrastructure Access Charges and Standby Charges combined were \$0.1 million under budget. These amounts were offset by a favorable variance in other income of \$1.3 million. In June 2002, the Board of Directors adopted new rates and charges, which decreased the variability of the Water Authority's net water revenues and decreased the amount of funds required to be held in reserve as an insurance against such variances. The Water Authority's operating reserve maximum ending balance was changed to 45 days resulting in the Board of Directors approving a refund of \$14.0 million to the member agencies.

Sources of Revenue for Fiscal Year Ended June 30, 2003



The Water Authority's Fiscal Year 2002-2003 expenditures were \$477.3 million, which was \$0.9 million under the final approved expenditure budget of \$478.2 million. Water purchases were \$224.4 million, which was under budget by \$2.8 million. Total expenditures on the Capital Improvement Program were \$129.0 million, which was \$21.3 million under the Capital Budget. Debt service costs were \$12.4 million over budget due to the timing of a small debt payment from the 1991 Certificates of Participation, which was advance refunded as part of the \$300.0 million Water Revenue Certificates of Participation issued in June 2002. Operating expenditures were \$25.3 million, with a favorable variance of \$2.6 million. The favorable variance was caused primarily by salary and benefit savings from vacant and unfilled positions and under-spending in outside professional and technical services expense categories. The Equipment Replacement Fund was \$0.6 million under budget. The Board of Directors approved the \$14.0 million refund to member agencies; however, the budget was not increased for this expenditure.

CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAM

The Water Authority's Fiscal Year 2002-2003 capital assets were \$929.0 million net of \$138.7 million accumulated depreciation for a net book value of \$790.3 million. Included in the total reported on the Statements of Net Assets is \$404.9 million in construction in progress reflecting capital projects in various stages of completion. The Water Authority has an approved \$1.2 billion Capital Improvement Program, which includes \$827.0 million for the Emergency Storage Project (ESP). The ESP will create 90,100 acre-feet of reservoir storage in the County 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. The design and construction of the ESP began in 1999, and is scheduled to be completed in 2011. The balances in construction in progress are forecast to increase significantly in the future and the various projects will be capitalized as they are placed into service. The total additions to construction in progress, net of capitalized interest, was \$129.1 million. Capital projects in the amount of \$19.8 million were completed, transferred out of construction in progress and placed into service during the year. This major capital program is being financed by the issuance of long and short-term debt and current revenues of Capacity Charges and Water Standby Availability Charges that are deposited into the Pay-As-You-Go Fund.

INFRASTRUCTURE

In fiscal year ended June 30, 2003, the Water Authority maintained and repaired over 279 miles of pipelines, ranging in size from 36 inches to 108 inches in diameter, rights-of-way, roads, mechanical equipment, and buildings and grounds, including over 1,600 line structures and 119 metering and control buildings. A preventative maintenance program, which consists of performing inspections and maintenance tasks, is performed on a regularly scheduled basis. The Water 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

For fiscal year ended June 30, 2003, the Water Authority had approximately \$850.3 million in bonds, notes and commercial paper outstanding, a decrease of \$39.6 million (or 4.5 percent) over last year. In May 2002, Standard & Poors upgraded the Water Authority's bond rating from "AA-minus" to "AA." They cited the adoption by the Board of Directors of a new rate structure as being a positive credit factor. The new rate structure will result in an increased percentage of fixed revenues, which allows the Water Authority to have better reliability in its financial projections. They cited the strong fund balances and reserve levels as well as the continued strong debt service coverage that the Water Authority provides for its Certificates of Participation as some of the factors leading to the upgrade. In May 2002, Moody's Investor's Service and Fitch Ratings affirmed the Water Authority's "AA-minus" level ratings, which are considered very strong ratings and are enjoyed only by a very few select water agencies in California. Fitch viewed the Water Authority's financial management as a credit strength. More detailed information about the Water Authority's long-term debt is presented in Note 4 to the Basic Financial Statements, along with statements that the Water Authority was in compliance with its bond covenants, including meeting the debt service ratio requirement.

FISCAL YEAR 2003-2004 BUDGET

In June 2003, the Water Authority's Board of Directors approved a two-year budget, which includes Fiscal Years 2003-2004 and 2004-2005. The budgetary information provided in this section is only for Fiscal Year 2003-2004. Continued strong local economy projections, increased normal year water sales projections and other indicators were taken into account when adopting the Water Authority's Fiscal Year 2003-2004 Adopted Budget. Total revenues are estimated to be \$369.9 million, with Water Sales revenue of \$294.8 million, accounting for 79.7 percent of this amount. Tax revenues, Water Standby Availability Charges, and Infrastructure Access Charges should increase slightly from Fiscal Year's 2002-2003 actual amounts to \$8.4 million, \$10.9 million and \$11.0 million, respectively. Interest income is projected to decrease from a budgeted amount of \$19.6 million to \$13.1 million in the Fiscal Year 2003-2004 budget, a decrease of \$6.5 million. Capital reimbursements are projected to be \$5.3 million in Fiscal Year 2003-2004, which is a \$5.8 million decrease from Fiscal Year's 2002-2003 budget. Capacity Charge revenues are projected to be \$25.0 million in Fiscal Year 2003-2004, which is a \$4.6 million reduction when compared with the Fiscal Year 2002-2003 budget. The Capacity Charge revenues collected from new development are used to pay for capital costs associated with the increased demand new development places upon the water distribution system. Capacity Charge revenues depend heavily on the strength of the local economy. The Water Authority will use Capacity Charge and Water Standby Availability Charge revenues, which are deposited in the Pay-As-You-Go Fund, to finance the long-term Capital Improvement Program (CIP). There will be a net withdrawal of \$90.9 million from the Construction (CIP) Fund and withdrawal of \$10.3 million from the Pay-As-You-Go Fund to make payments on the CIP. In June 2002, the Water Authority's Board of Directors approved a new rate structure that replaces the current structure of rates and charges, which has historically been added to the cost of water. The new rate structure is the result of over four years of study and went into effect January 2003. The new rate structure has two new fixed components, a Customer Service Charge and a Storage Charge, and a variable component of a Transportation Charge for delivering water within the Water Authority's service area. The Customer Service Charge of \$13.7 million and Storage Charge of \$13.4 million are included in total water sales. (See Table XIV Schedule of Rate and Charges in the Statistical Section of this report).

The Fiscal Year 2003-2004 expenditures are budgeted at \$440.2 million, a decrease of \$37.5 million or 7.9 percent below the original Fiscal Year 2002-2003 expenditure budget. The Operating Budget has increased from \$27.5 million to \$30.0 million primarily due to increased staff and professional technical services activities required to address the Board of Director's defined priorities of completing the Quantification Settlement Agreement, as well as to continue promoting water conservation and reclamation programs; addressing the peaking problem through demand management and increased plant capacity programs, and maintaining the scope, schedule and budget for the Emergency Storage Project; pursuing seawater desalination, conjunctive use, reclamation, conservation and additional water transfers, in addition to their Water Facilities priorities, Community and Legislative Support priorities and Financial priorities; as well as providing for increases in the cost of living for all employees based upon the newly approved four-year labor agreements. Water purchases are forecasted to increase by approximately \$9.3 million compared to the budgeted water purchases for Fiscal Year 2002-2003, while authorized expenditures on the CIP will decrease from \$150.3 million to \$101.2 million, a decrease of \$49.1 million. The primary reason for the decrease is that most of the projects are in the planning and design phases and not in the construction phases, which require a larger and faster capital outlay.

To finance the anticipated expenditure on the CIP, the Water Authority is anticipating the Construction (CIP) Fund will decrease by \$84.1 million after receipt of interest income of \$1.5 million and \$5.3 million of capital reimbursements. The Operating Fund will decrease by \$12.8 million net of all revenues and transfers to the Equipment Replacement and Rate Stabilization Funds. The Pay-As-You-Go Fund will increase by a net \$9.1 million after receipts of \$5.0 million of interest income, \$35.9 million of Capacity Charges and Water Standby Availability Charges and expenditures related to the Capital Improvement Program of \$31.8 million. If these projections and financial plans are realized and executed, the Water Authority's fund balances will decrease from a total of approximately \$483.9 million to \$396.2 million, a net decrease of \$87.7 million during the year.

CONTACTING THE WATER AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Board of Directors, the Water Authority's member agencies, taxpayers, creditors and investors with a general overview of the San Diego County Water Authority's accountability for the financial resources 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 4677 Overland Avenue, San Diego, California 92123.

SAN DIEGO COUNTY WATER AUTHORITY
Statements of Net Assets
June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 63,144,000	\$ 77,398,000
Investments	24,961,000	-
Due from member agencies and other receivables	45,327,000	63,264,000
Interest receivable	3,081,000	3,440,000
Taxes receivable	395,000	493,000
Inventory	1,374,000	1,099,000
Total current assets	<u>138,282,000</u>	<u>145,694,000</u>
Noncurrent assets:		
Restricted cash and cash equivalents (note 2)	19,669,000	186,441,000
Restricted investments (note 2)	385,431,000	343,541,000
Unamortized bond issuance costs (note 4)	5,938,000	6,515,000
Capital assets (note 3):		
Land	8,561,000	8,400,000
Construction in progress	404,864,000	279,976,000
Other capital assets, net	781,679,000	777,733,000
Total noncurrent assets	1,606,142,000	1,602,606,000
Total assets	<u>1,744,424,000</u>	<u>1,748,300,000</u>
Liabilities:		
Current liabilities:		
Accounts payable and other liabilities	58,184,000	87,508,000
Interest payable	5,484,000	5,864,000
Construction deposits	3,452,000	2,060,000
Current portion of long-term debt (note 4)	144,610,000	152,937,000
Total current liabilities	<u>211,730,000</u>	<u>248,369,000</u>
Noncurrent liabilities:		
Compensated absences (note 4)	1,583,000	1,327,000
Long-term debt (note 4)	710,032,000	741,101,000
Total noncurrent liabilities	711,615,000	742,428,000
Total liabilities	<u>923,345,000</u>	<u>990,797,000</u>
Net assets (note 5):		
Invested in capital assets, net of related debt	522,041,000	501,159,000
Restricted for construction projects	182,221,000	150,733,000
Restricted for rate stabilization	64,437,000	61,619,000
Unrestricted (note 1)	52,380,000	43,992,000
Total net assets	<u>\$ 821,079,000</u>	<u>\$ 757,503,000</u>

See accompanying notes to the basic financial statements.

SAN DIEGO COUNTY WATER AUTHORITY
Statements of Revenues, Expenses, and Changes in Net Assets
Fiscal Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Water sales	\$ 283,044,000	\$ 294,526,000
Total operating revenues	283,044,000	294,526,000
Operating expenses:		
Cost of sales	224,347,000	242,255,000
Depreciation and amortization	17,645,000	17,773,000
Operations and maintenance	9,057,000	7,679,000
Planning	3,812,000	2,212,000
General and administrative	11,933,000	13,119,000
Total operating expenses	<u>266,794,000</u>	<u>283,038,000</u>
Operating income	<u>16,250,000</u>	<u>11,488,000</u>
Nonoperating revenues (expenses):		
Property taxes and in-lieu charges	8,079,000	7,575,000
Infrastructure access charges	10,091,000	9,968,000
Investment income	19,955,000	16,880,000
Other income	994,000	1,104,000
Interest expense	(25,603,000)	(17,795,000)
Other expenses	(318,000)	(312,000)
Operating reserve distribution (note 11)	(14,000,000)	-
Total nonoperating revenues (expenses)	<u>(802,000)</u>	<u>17,420,000</u>
Income before other revenues, expenses, gains, losses, and transfers	15,448,000	28,908,000
Capital contributions	<u>48,128,000</u>	<u>49,986,000</u>
Increase (decrease) in net assets	63,576,000	78,894,000
Net assets at beginning of year	<u>757,503,000</u>	<u>678,609,000</u>
Net assets at end of year	<u>\$ 821,079,000</u>	<u>\$ 757,503,000</u>

See accompanying notes to the basic financial statements.

SAN DIEGO COUNTY WATER AUTHORITY
Statements of Cash Flows
Fiscal Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from customers	\$ 299,458,000	\$ 300,921,000
Cash payments to employees for services	(24,353,000)	(20,764,000)
Cash payments to suppliers for goods and services	<u>(254,177,000)</u>	<u>(225,927,000)</u>
Net cash provided by (used for) operating activities	<u>20,928,000</u>	<u>54,230,000</u>
Cash flows from noncapital financing activities:		
Property taxes and in-lieu charges received	<u>8,177,000</u>	<u>7,626,000</u>
Net cash provided by (used for) noncapital financing activities	8,177,000	7,626,000
Cash flows from capital and related financing activities:		
Cash paid for acquisition and construction of capital assets	(130,311,000)	(125,744,000)
Cash received from sale of capital assets	28,000	3,144,000
Contributions and capital related revenues received from other governments	48,128,000	49,986,000
Proceeds of debt issuance	110,000,000	403,737,000
Principal paid on debt	(150,945,000)	(93,235,000)
Interest paid on debt	<u>(40,494,000)</u>	<u>(28,271,000)</u>
Net cash provided by (used for) capital and related financing activities	<u>(163,594,000)</u>	<u>209,617,000</u>
Cash flows from investing activities:		
Purchase of investments	(139,385,000)	(283,017,000)
Proceeds from sale and maturities of investments	70,538,000	149,277,000
Interest received on investments	<u>22,310,000</u>	<u>17,267,000</u>
Net cash provided by (used for) investing activities	<u>(46,537,000)</u>	<u>(116,473,000)</u>
Net increase (decrease) in cash and cash equivalents	(181,026,000)	155,000,000
Cash and cash equivalents at beginning of year	<u>263,839,000</u>	<u>108,839,000</u>
Cash and cash equivalents at end of year	<u>\$ 82,813,000</u>	<u>\$ 263,839,000</u>

(Continued)

See accompanying notes to the basic financial statements.

SAN DIEGO COUNTY WATER AUTHORITY
Statements of Cash Flows
(Continued)

	2003	2002
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 16,250,000	\$ 11,488,000
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization of bond issuance costs	17,645,000	17,773,000
Infrastructure access charges	10,091,000	9,968,000
Other income and expenses	676,000	792,000
Distribution to member agencies	(14,000,000)	-
(Increase) decrease in due from member agencies and other receivables	17,937,000	(3,231,000)
(Increase) decrease in inventory	(275,000)	555,000
(Increase) decrease in other assets	(151,000)	199,000
Increase (decrease) in accounts payable and other liabilities	(29,131,000)	17,686,000
Increase (decrease) in construction deposits	1,392,000	(1,446,000)
Increase (decrease) in compensated absences	494,000	446,000
Net cash provided by (used for) operating activities	\$ 20,928,000	\$ 54,230,000
Noncash capital financing and investing activities:		
Amortization of discounts, premiums, and deferred refunding charge	\$ 2,088,000	\$ 1,119,000
Change in market value of investments	1,996,000	287,000

See accompanying notes to the basic financial statements.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
Fiscal Years Ended June 30, 2003 and 2002

(1) Nature of Business and Significant Accounting Policies

Nature of Business

The San Diego County Water Authority (Water Authority) was organized on June 9, 1944 under the County Water Authority Act (Act) for the primary purpose of providing a supplemental supply of imported water to its member agencies for domestic, municipal and agricultural uses. The Water Authority consists of 23 member agencies that are each represented by at least one person on the Water Authority's Board of Directors. The Water Authority is a member of the Metropolitan Water District of Southern California (MWD). Historically, the Water Authority has purchased, from MWD, all the water it requires to meet the demands of the member agencies. The Water Authority is currently in the process of seeking alternative assured sources of water in addition to the MWD. During 1999, the Water Authority executed the Imperial Irrigation District Water Transfer Agreement that will supply replacement water to Southern California and provide supply diversity to the San Diego region. The Quantification Settlement Agreement was signed on October 10, 2003.

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 Water Authority has a statutory preferential right to approximately 15.3% of MWD's total supply. MWD has represented that it will provide reliable water supplies notwithstanding preferential rights. The Water Authority has initiated litigation seeking declaratory relief and other remedies with respect to the application of preferential rights. The Water Authority is appealing the trial court judgment to dismiss the lawsuit.

Basis of Accounting

The Water 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 Water Authority utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

The Water 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.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(1) Nature of Business and Significant Accounting Policies, (Continued)

Property Taxes and In-Lieu Charges

The Water 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 Water Authority's debt service requirements on its general obligation bonds.

Property taxes are levied annually by the Water 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 Water Authority throughout the year.

Member agencies of the Water 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 years ended June 30, 2003 and 2002 are in-lieu charges of \$1,110,000 and \$1,039,000, respectively.

Inventories

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

Capital Assets

Capital assets are 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 Water Authority capitalizes all assets with a historical cost of at least \$1,000 and a useful life of at least three years. The cost 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 100 years
Buildings	40 years
Other equipment	3 to 10 years
Automobiles/trucks	5 to 7 years

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(1) Nature of Business and Significant Accounting Policies, (Continued)

Compensated Absences

It is the Water Authority's policy to permit employees to accumulate earned but unused vacation benefits up to certain limits. Employees are annually compensated in cash for accrued balances in excess of the accrual limits. Earned vacation pay to a maximum of 50 days (75 days for management) and 25% of accumulated sick leave may be paid upon termination of employment. Upon retirement the Water 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 Water 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 Water Authority when the specified qualifying assets are no longer eligible for interest capitalization. Interest cost capitalized during the years ended June 30, 2003 and 2002 was \$15,629,000 and \$12,904,000, respectively.

Revenue Policies

The principal portion of the Water Authority's revenues is provided by water rates and charges. Water is delivered to member agencies on demand and revenue is recognized at the time of delivery. The Water Authority also has two other separate revenue sources as part of its Long Range Financing Plan to fund the Capital Improvement Program. A Water Standby Availability Charge was put into effect in Fiscal Year 1990 and generated revenue of \$10,743,000 for the year ended June 30, 2003 and \$10,696,000 in 2002. In Fiscal Year 1991, the Water Authority implemented a Capacity Charge on all new water meters purchased within the boundaries of the Water Authority, which generated revenue of \$26,305,000 for the year ended June 30, 2003 and \$24,951,000 for the year ended June 30, 2002.

Included in restricted cash, cash equivalents and investments at June 30, 2003 and 2002 is \$163,468,000 and \$143,422,000, respectively, identified in the Pay-As-You-Go account. This account is used for future cash expenditures and debt service payments for capital improvement projects and consists of Water Standby Availability and Capacity Charges.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(1) Nature of Business and Significant Accounting Policies, (Continued)

Revenue Policies, (Continued)

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 Water Authority's projected fixed expenditures. The IAC is levied on all retail water meters within the Water 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 \$10,091,000 for the year ended June 30, 2003 and \$9,968,000 for the year ended June 30, 2002. The IAC will be adjusted each year as part of the regular rate-setting process.

Cash and Cash Equivalents

For the purposes of the Statements 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 three months or less.

Investments

Investments are reported in the accompanying Statements 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

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the Water Authority consist of sales of water. *Nonoperating revenues* consist of property taxes, in-lieu charges, hydroelectric sales, investment income, and special charges that can be used for *either* operating or capital purposes. Operating expenses for enterprise funds include the cost of sales, administrative expenses and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

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.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(1) Nature of Business and Significant Accounting Policies, (Continued)

When both restricted and unrestricted resources are available for use, it is the Water Authority's policy to use unrestricted resources first, then restricted resources as they are needed. For capital expenditures, restricted bond proceeds are used first, then other restricted resources, then unrestricted resources are used if needed.

Budgets and budgetary accounting

Annual budgets adopted by the Board of Directors provide for operations, debt service and capital expenditures of the Water Authority. Budgetary controls are set by the Board of Directors. The Board of Directors adopts an operating budget at the beginning of the Water Authority's fiscal year. The legally adopted budget requires that expenditures not exceed appropriations in total for the Water Authority. The Board of Directors may make appropriation adjustments to the budget during the year as deemed necessary. The Water Authority adhered to the prescribed budget as discussed above for the years ended June 30, 2003 and 2002.

Unrestricted Net Assets

The unrestricted net assets of the Water Authority are restricted by state law for sole use by the Water Authority for water operations. They are reported as unrestricted net assets in the accompanying financial statements because this restriction corresponds to the general purpose for which the Water Authority has been established. They are unavailable for other government uses and are committed to the ongoing operations of the Water Authority, including amounts necessary to cover contingencies, unanticipated expenditures, revenue shortfalls, and weather and economic fluctuations.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments

Cash and investments are classified in the accompanying Statements of Net Assets as follows:

	<u>2003</u>	<u>2002</u>
Current assets:		
Cash and cash equivalents	\$ 63,144,000	\$ 77,398,000
Investments	24,961,000	-
Noncurrent assets:		
Restricted cash and cash equivalents	19,669,000	186,441,000
Restricted investments	<u>385,431,000</u>	<u>343,541,000</u>
	<u>\$ 493,205,000</u>	<u>\$ 607,380,000</u>

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

	<u>2003</u>	<u>2002</u>
Petty cash	\$ 2,000	\$ 2,000
Deposits	22,315,000	25,142,000
Investments	<u>470,888,000</u>	<u>582,236,000</u>
	<u>\$ 493,205,000</u>	<u>\$ 607,380,000</u>

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

Authorized Investments

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

<u>Permitted Investment</u>	<u>Restrictions</u>
Local Agency Investment Fund	A maximum of \$40 million and a maximum of \$175 million of bond proceeds.
Bankers Acceptances	Rated a minimum of "A", limited to 20% of portfolio and single-issuer holdings of no more than 5%, and a maximum maturity of 180 days.
Treasury Securities	No restrictions.
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 92 days, and a maximum of 20% of portfolio.
Certificates of Deposit	Minimum rating of "A", maximum of \$100,000 in any FDIC insured institution without collateral requirements, and maximum portfolio is limited to 15% with a maximum maturity of one year.
Negotiable Certificates of Deposit	Minimum rating of "AA", limited to 15% of portfolio, and a maximum maturity of one year.
Commercial Paper	Minimum rating of "A", and assets in excess of \$500 million, maximum of 10% of total issue, maximum portfolio of 25% and single-issuer holding of no more than 5%. (The 5% limit was exceeded on April 25, 2003).
Medium Term Notes	Minimum rating of "AA-", maximum of 30% of portfolio, and single-issuer holding of no more than 5%, maximum maturity of three years for "AA-" and "AA" and five years for "AAA" notes.
Agency Securities	Maximum of 70% 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.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

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 institutions 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 Water Authority or its agent in the Water Authority's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Water 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 Water Authority's name. Category 3 also includes any uncollateralized deposits.

At June 30, 2003, deposits are categorized as follows:

<u>Form of Deposit</u>	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Demand deposits	\$ 100,000	\$ 2,381,000	\$ -	\$ 2,481,000	\$ 857,000
Bank investment agreement	<u>100,000</u>	<u>21,358,000</u>	<u>-</u>	<u>21,458,000</u>	<u>21,458,000</u>
	<u>\$ 200,000</u>	<u>\$ 23,739,000</u>	<u>\$ -</u>	<u>\$ 23,939,000</u>	<u>\$ 22,315,000</u>

At June 30, 2002, deposits are categorized as follows:

<u>Form of Deposit</u>	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Demand deposits	\$ 100,000	\$ 1,407,000	\$ -	\$ 1,507,000	\$ 3,680,000
Bank investment agreement	<u>100,000</u>	<u>21,362,000</u>	<u>-</u>	<u>21,462,000</u>	<u>21,462,000</u>
	<u>\$ 200,000</u>	<u>\$ 22,769,000</u>	<u>\$ -</u>	<u>\$ 22,969,000</u>	<u>\$ 25,142,000</u>

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 Water Authority or the Water Authority's custodial agent (which must be a different institution other than the party through which the Water Authority purchased the securities) in the Water Authority's name. Investments held "in the Water Authority's name" include securities held in a separate custodial or fiduciary account and identified as owned by the Water

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

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 Water Authority's name (or by the trust department of the dealer if the dealer was a financial institution and another department of the institution purchased the security of the Water Authority). Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer's agent, but not in the Water Authority's name. Category 3 also includes all securities held by the broker-dealer agent of the Water Authority (the party that purchased the security of the Water Authority) regardless of whether or not the securities are being held in the Water Authority's name.

Investments are categorized as follows at June 30, 2003:

<u>Form of Investment</u>	<u>Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Federal agency securities	\$ 176,769,000	\$ -	\$ -	\$ 176,769,000
U.S. treasury notes	61,808,000	-	-	61,808,000
Medium term notes	<u>32,257,000</u>	<u>-</u>	<u>-</u>	<u>32,257,000</u>
	<u>\$ 270,834,000</u>	<u>\$ -</u>	<u>\$ -</u>	270,834,000
Investments not subject to categorization:				
Local Agency Investment Fund				55,316,000
Guaranteed investment contracts				136,793,000
Money market mutual funds				<u>7,945,000</u>
Total investments				<u>\$ 470,888,000</u>

Investments are categorized as follows at June 30, 2002:

<u>Form of Investment</u>	<u>Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Federal agency securities	\$ 126,387,000	\$ -	\$ -	\$ 126,387,000
U.S. treasury notes	51,865,000	-	-	51,865,000
Medium term notes	<u>49,121,000</u>	<u>-</u>	<u>-</u>	<u>49,121,000</u>
	<u>\$ 227,373,000</u>	<u>\$ -</u>	<u>\$ -</u>	227,373,000
Investments not subject to categorization:				
Local Agency Investment Fund				191,884,000
Guaranteed investment contracts				133,777,000
Money market mutual funds				<u>29,202,000</u>
Total investments				<u>\$ 582,236,000</u>

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

The Water 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 Water Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Water 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.

(3) Capital Assets

Capital asset activity for the year ended June 30, 2003 is as follows:

	Balance at <u>June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2003</u>
Water systems	\$ 788,830,000	\$ 2,834,000	\$ (368,000)	\$ 791,296,000
Buildings	83,911,000	16,284,000	-	100,195,000
Automobiles and equipment	<u>28,389,000</u>	<u>1,774,000</u>	<u>(1,255,000)</u>	<u>28,908,000</u>
Total cost of depreciable assets	<u>901,130,000</u>	<u>20,892,000</u>	<u>(1,623,000)</u>	<u>920,399,000</u>
Less accumulated depreciation:				
Water systems	(99,016,000)	(11,632,000)	372,000	(110,276,000)
Buildings	(7,340,000)	(2,014,000)	-	(9,354,000)
Automobiles and equipment	<u>(17,041,000)</u>	<u>(3,268,000)</u>	<u>1,219,000</u>	<u>(19,090,000)</u>
Total accumulated depreciation	<u>(123,397,000)</u>	<u>(16,914,000)</u>	<u>1,591,000</u>	<u>(138,720,000)</u>
Net depreciable assets	777,733,000	3,978,000	(32,000)	781,679,000
Capital assets not depreciated:				
Land	8,400,000	161,000	-	8,561,000
Construction in progress	<u>279,976,000</u>	<u>144,679,000</u>	<u>(19,791,000)</u>	<u>404,864,000</u>
Capital assets, net	<u>\$ 1,066,109,000</u>	<u>\$ 148,818,000</u>	<u>\$ (19,823,000)</u>	<u>\$ 1,195,104,000</u>

Depreciation expense for the year was \$16,906,000.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(3) Capital Assets, (Continued)

Capital asset activity for the year ended June 30, 2002 is as follows:

	Balance at June 30, 2001, as restated *	<u>Additions</u>	<u>Deletions</u>	Balance at June 30, 2002
Water systems	\$ 755,998,000	\$ 32,866,000	\$ (34,000)	\$ 788,830,000
Buildings	43,910,000	43,925,000	(3,924,000)	83,911,000
Automobiles and equipment	<u>27,535,000</u>	<u>2,893,000</u>	<u>(2,039,000)</u>	<u>28,389,000</u>
Total cost of depreciable assets	<u>827,443,000</u>	<u>79,684,000</u>	<u>(5,997,000)</u>	<u>901,130,000</u>
Less accumulated depreciation:				
Water systems	(87,223,000)	(11,827,000)	34,000	(99,016,000)
Buildings	(7,411,000)	(1,204,000)	1,275,000	(7,340,000)
Automobiles and equipment	<u>(14,848,000)</u>	<u>(4,197,000)</u>	<u>2,004,000</u>	<u>(17,041,000)</u>
Total accumulated depreciation	<u>(109,482,000)</u>	<u>(17,228,000)</u>	<u>3,313,000</u>	<u>(123,397,000)</u>
Net depreciable assets	717,961,000	62,456,000	(2,684,000)	777,733,000
Capital assets not depreciated:				
Land	9,075,000	-	(675,000)	8,400,000
Construction in progress	<u>221,012,000</u>	<u>136,833,000</u>	<u>(77,869,000)</u>	<u>279,976,000</u>
Capital assets, net	<u>\$ 948,048,000</u>	<u>\$ 199,289,000</u>	<u>\$ (81,228,000)</u>	<u>\$ 1,066,109,000</u>

Depreciation expense for the year was \$17,233,000.

* Beginning capital assets have been restated to reflect changes in asset classifications.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(4) Long-Term Debt

Long-term liabilities for the year ended June 30, 2003 are as follows:

	<u>Balance at June 30, 2002</u>	<u>Additions/ Amortizations</u>	<u>Principal Repayments</u>	<u>Balance at June 30, 2003</u>	<u>Amounts Due Within One Year</u>
2002A Water Revenue COP's	\$ 296,063,000	\$ 132,000	\$ (16,905,000)	\$ 279,290,000	\$ 5,030,000
1998A Water Revenue COP's	179,024,000	62,000	-	179,086,000	-
1997A Water Revenue COP's	150,689,000	1,117,000	(210,000)	151,596,000	13,275,000
1993 Water Revenue COP's	81,895,000	-	(9,955,000)	71,940,000	10,275,000
1991 Water Revenue COP's	69,000,000	-	(12,300,000)	56,700,000	-
1966 Waterworks Bonds	3,220,000	-	(1,575,000)	1,645,000	1,645,000
Commercial Paper	<u>110,000,000</u>	<u>110,000,000</u>	<u>(110,000,000)</u>	<u>110,000,000</u>	<u>110,000,000</u>
Total long-term debt	889,891,000	111,311,000	(150,945,000)	850,257,000	140,225,000
Other liabilities:					
Compensated absences	3,319,000	2,628,000	(2,134,000)	3,813,000	2,230,000
Arbitrage rebate	<u>2,155,000</u>	<u>-</u>	<u>-</u>	<u>2,155,000</u>	<u>2,155,000</u>
Total long-term liabilities	<u>\$ 895,365,000</u>	<u>\$ 113,939,000</u>	<u>\$ (153,079,000)</u>	<u>\$ 856,225,000</u>	<u>\$ 144,610,000</u>

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(4) Long-Term Debt, (Continued)

Long-term liabilities for the year ended June 30, 2002 are as follows:

	<u>Balance at June 30, 2001</u>	<u>Additions/ Amortizations</u>	<u>Principal Repayments</u>	<u>Balance at June 30, 2002</u>	<u>Amounts Due Within One Year</u>
2002A Water Revenue COP's	\$ -	\$ 296,063,000	\$ -	\$ 296,063,000	\$ 16,905,000
1998A Water Revenue COP's	178,963,000	61,000	-	179,024,000	-
1997A Water Revenue COP's	150,307,000	1,047,000	(665,000)	150,689,000	210,000
1993 Water Revenue COP's	91,355,000	-	(9,460,000)	81,895,000	9,955,000
1991 Water Revenue COP's	80,605,000	-	(11,605,000)	69,000,000	12,300,000
1966 Waterworks Bonds	4,725,000	-	(1,505,000)	3,220,000	1,575,000
Commercial Paper	<u>70,000,000</u>	<u>110,000,000</u>	<u>(70,000,000)</u>	<u>110,000,000</u>	<u>110,000,000</u>
Total long-term debt	575,955,000	407,171,000	(93,235,000)	889,891,000	150,945,000
Other liabilities:					
Compensated absences	2,873,000	2,361,000	(1,915,000)	3,319,000	1,992,000
Arbitrage rebate	<u>3,000,000</u>	<u>-</u>	<u>(845,000)</u>	<u>2,155,000</u>	<u>-</u>
Total long-term liabilities	<u>\$ 581,828,000</u>	<u>\$ 409,532,000</u>	<u>\$ (95,995,000)</u>	<u>\$ 895,365,000</u>	<u>\$ 152,937,000</u>

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(4) Long-Term Debt, (Continued)

2002 Water Revenue Certificates of Participation

To provide funds for a portion of the design, acquisition and construction of the Water Authority's Emergency Storage Project and other water system improvements in furtherance of the Water Authority's Capital Improvement Program, the Water Authority issued 2002A Water Revenue Certificates of Participation on May 1, 2002, in the aggregate principal amount of \$300,000,000. A portion of the proceeds were used to make an early payment of \$12,300,000 on the 1991A Certificates of Participation on July 15, 2002. The transaction did not meet the criteria for an in-substance defeasance; therefore, the 1991A Certificates were not removed from the balance sheet prior to the July 15, 2002 payment.

The Serial Certificates with an aggregate principal amount of \$249,935,000 have stated interest rates ranging from 3.00% to 5.00% payable semi-annually on May 1 and November 1. The net interest cost to the Water Authority on the Serial Certificates for the year ended June 30, 2003 was approximately 4.87% and was approximately 0.33% for the period June 5 through June 30, 2002. These certificates mature annually through May 1, 2029, subject to optional prepayments beginning May 1, 2012.

The Term Certificates with an aggregate principal amount of \$50,065,000 have a stated interest rate of 5.00% payable semi-annually on May 1 and November 1. An amount of \$15,880,000 of these certificates are due May 1, 2030, \$16,675,000 are due May 1, 2031, and \$17,510,000 are due May 1, 2032.

The 2002A Water Revenue Certificates were issued at a discount of \$3,948,000 and issuance costs of \$2,271,000. The certificates require that a reserve be maintained in an amount equal to the lesser of \$18,386,000 or maximum annual debt service on the 2002A Certificates. At June 30, 2003 and 2002, the reserve was fully funded. Included in restricted cash and investments at June 30, 2003 and 2002 is unexpended bond proceeds in the amount of \$122,088,000 and \$269,835,000, respectively. The principal balance of outstanding certificates at June 30, 2003 is \$279,290,000, net of unamortized discount of \$3,805,000, and \$296,063,000, net of unamortized discount of \$3,937,000 at June 30, 2002.

1998A Water Revenue Certificates of Participation

To provide funds for the design and construction of the Water Authority's Emergency Storage Project and other water system improvements in furtherance of the Water Authority's Capital Improvement Program, the Water Authority issued 1998A Water Revenue Certificates of Participation on October 15, 1998, in the aggregate principal amount of \$180,000,000.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(4) Long-Term Debt, (Continued)

1998A Water Revenue Certificates of Participation, (Continued)

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 Water Authority on the 1998A Certificates for the years ended June 30, 2003 and 2002 was approximately 4.89%. 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 were 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, 2003 and 2002, the reserve was fully funded. The principal balance of outstanding certificates at June 30, 2003 is \$179,086,000, net of unamortized discount of \$914,000 and \$179,024,000, net of unamortized discount of \$976,000, at June 30, 2002.

1997A Water Revenue Refunding Certificates of Participation

On December 1, 1997, the Water 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 6.30%.

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 Water Authority on the 1997A certificates for the years ended June 30, 2003 and 2002 was approximately 4.89% 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.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(4) Long-Term Debt, (Continued)

1997A Water Revenue Refunding Certificates of Participation, (Continued)

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 Water 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, 2003 and 2002 is amortization of \$1,350,000 and \$1,264,000, respectively, of net deferred amounts. The principal balance of outstanding certificates at June 30, 2003 is \$151,596,000, net of unamortized premium of \$1,848,000 and unamortized loss from refunding of \$10,737,000. The principal balance of outstanding certificates at June 30, 2002 was \$150,689,000, net of unamortized premium of \$2,081,000 and unamortized loss from refunding of \$12,087,000.

1993 Water Revenue Refunding Certificates of Participation

To provide funds for the refunding of the 1989A Water Revenue Certificates of Participation, the Water 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 Water Authority on the 1993A certificates for the years ended 2003 and 2002 was approximately 7.60% and 6.80%, respectively. These certificates mature serially through May 1, 2005 and are not subject to prepayment. The Series 1993A Floating Auction Tax Exempts (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 (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 Water Authority and issued in satisfaction of this requirement.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(4) Long-Term Debt, (Continued)

1991 Water Revenue Certificates of Participation

To provide funds for the acquisition and construction of water system improvements, the Water 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 Water Authority on the Series 1991A and 1991B Water Revenue Certificates of Participation for the years ended June 30, 2003 and 2002 was approximately 6.31% and 7.39%, respectively. These Certificates mature serially through May 1, 2003 and may be redeemed, at the option of the Water 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 Water Authority of 6.30%. These Certificates mature April 21, 2011.

The Certificates require that a reserve be maintained in an amount of \$21,329,000, representing the lesser of 100% of the maximum annual payments, or 125% of the average annual payments. At June 30, 2003 and 2002, the reserve was fully funded.

1966 Waterworks General Obligation Bonds

During 1968, the Water 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 0.50% in 2002.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(4) Long-Term Debt, (Continued)

Commercial Paper

The Water 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 in November 2005. During the term of the agreement, the Water Authority is obligated to pay a usage fee of 0.10% on the utilized commitment and 0.06% on the unutilized commitment. Currently, no advances have been made under the revolving credit and term loan agreement during the year ended June 30, 2003. The Water Authority maintains remarketing arrangements with two dealers at a total cost of 0.05% 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, 2003 and 2002, \$110,000,000 of commercial paper is outstanding.

Revenue Covenants

Certain outstanding debt agreements require the Water 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 Water Authority was in compliance with all of its covenants, including meeting its debt service ratio requirement.

In fiscal 1990, the Water Authority established a water rate stabilization fund for the purpose of identifying amounts available to mitigate future water rate increases. The Water 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. During fiscal year ended June 30, 2003, the Water Authority transferred \$1,400,000 from the rate stabilization fund and during fiscal year ended June 30, 2002, the Water Authority transferred \$5,276,000 to the rate stabilization fund. As of June 30, 2003 and 2002, the balance in this fund, which is included in restricted cash, cash equivalents and investments, totaled \$64,437,000 and \$61,619,000, respectively.

Unamortized Bond Issuance Costs

Included in noncurrent assets at June 30, 2003 and 2002 are deferred financing costs of \$5,938,000 and \$6,515,000, respectively. The deferred financing costs are being amortized over the life of the related obligations.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(4) Long-Term Debt, (Continued)

Prior Year Defeasance of Debt

In prior years, the Water 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 Water Authority's financial statements. At June 30, 2003 and 2002, \$80,000,000 of certificates outstanding are considered defeased.

Debt to Maturity

The annual requirements to amortize outstanding long-term debt of the Water Authority excluding amortizations of discounts, premiums, losses, and commercial paper at June 30, 2003 are as follows:

<u>June 30</u>	<u>General Obligation</u>		<u>Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal Payment</u>	<u>Interest Payment</u>
2004	\$ 1,645,000	\$ 37,000	\$ 28,580,000	\$ 38,239,000
2005	-	-	30,660,000	36,305,000
2006	-	-	31,580,000	35,160,000
2007	-	-	33,685,000	33,259,000
2008	-	-	34,685,000	31,861,000
2009-2013	-	-	159,095,000	129,777,000
2014-2018	-	-	153,910,000	91,765,000
2019-2023	-	-	95,975,000	59,578,000
2024-2028	-	-	118,860,000	34,255,000
2029-2032	-	-	65,190,000	8,348,000
Total	<u>\$ 1,645,000</u>	<u>\$ 37,000</u>	<u>\$ 752,220,000</u>	<u>\$ 498,547,000</u>

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(5) Net Assets

Net assets at June 30, 2003 and 2002 consisted of the following:

	<u>2003</u>	<u>2002</u>
Invested in capital assets, net of related debt:		
Capital assets, net	\$1,195,104,000	\$1,066,109,000
Less:		
Outstanding debt issued to construct capital assets	(850,257,000)	(889,891,000)
Add back portion of debt associated with unspent bond proceeds	<u>177,194,000</u>	<u>324,941,000</u>
Total invested in capital assets, net of related debt	<u>522,041,000</u>	<u>501,159,000</u>
Restricted net assets:		
Restricted by bond documents and enabling legislation for capital projects:		
Capital projects	182,221,000	150,733,000
Unspent bond proceeds	177,194,000	324,941,000
Less outstanding debt associated with restricted assets	(177,194,000)	(324,941,000)
Restricted for rate stabilization	<u>64,437,000</u>	<u>61,619,000</u>
Total restricted net assets	246,658,000	212,352,000
Unrestricted net assets	<u>52,380,000</u>	<u>43,992,000</u>
Total net assets	<u>\$ 821,079,000</u>	<u>\$ 757,503,000</u>

(6) 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: 400 P Street, Sacramento, California 95814.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(6) Defined Benefit Pension Plan, (Continued)

Funding Policy

The Water Authority has elected to make contributions on behalf of its employees at the required amount of 7% of their annual covered salary. The Water Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. For the years ended June 30, 2003 and 2002, the amount contributed by the Water Authority on behalf of the employees was \$1,117,000 and \$1,019,000, respectively. The required employer contribution rate for the years ended June 30, 2003 and 2002 was 0%. 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, 2003 and 2002, the Water Authority's annual pension cost of \$ 0 was equal to the Water Authority's required and actual contributions. The required contributions were determined as part of the June 30, 2000 and 1999 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. PERS initial unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over nine years. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period.

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>
6/30/01	\$ 152,000	100%	-
6/30/02	-	100%	-
6/30/03	-	100%	-

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(6) Defined Benefit Pension Plan, (Continued)

Required Supplementary Information

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ Liability (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
6/30/99	\$ 25,640,481	\$ 34,475,867	\$ (8,835,386)	134.5%	\$ 11,324,534	(78.0%)
6/30/00	30,706,234	40,210,216	(9,503,982)	131.0%	12,056,784	(78.8%)
6/30/01	34,727,970	41,984,089	(7,256,119)	120.9%	14,173,190	(51.2%)

The actuarial valuation as of June 30, 2002 was not provided by PERS in time to reflect such data in the above table.

(7) Deferred Compensation Plan

The Water Authority has adopted deferred compensation plans in accordance with Sections 401(A) and 457(F) 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, 2003 and 2002, assets of the Plans totaled \$12,606,000 and \$10,981,000, 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 Water Authority, subject to the claims of the Water Authority's general creditors. The plan was amended during the year ended June 30, 1998, in accordance with 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.

(8) Other Post-Employment Benefits

The Water Authority provides 100% of the monthly medical insurance premiums for retired employees and their spouses for the basic medical plan until they reach age 65 and are eligible for Medicare. The benefits are funded on a pay-as-you-go basis. To be eligible for these benefits, the employee must be 55 years of age upon retirement with five years of service. There were 17 individuals enrolled at June 30, 2003 and 14 individuals enrolled at June 30, 2002. For fiscal years ended June 30, 2003 and 2002, the Water Authority's retiree medical insurance costs were \$55,000 and \$41,000, respectively.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(9) Insurance

The Water 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 Water Authority is a participant in the Association of California Water Agencies – Joint Powers Insurance Agency (ACWA-JPIA) for the purpose of providing multiple lines of insurance coverage for the Water Authority. The Water Authority maintains the following types of insurance coverage with ACWA-JPIA: liability insurance which includes general and auto, property insurance, and workers compensation. The Water Authority had a \$25,000 retrospective allocation point (self-insured retention) per claim for general and automobile liability for the years ended June 30, 2003 and 2002 with a total coverage limit of \$50,000,000. The property insurance program provided for up to \$50,000,000 in coverage, which included boiler and machinery coverage and had a \$25,000 retrospective allocation point per claim. For workers compensation coverage, for claims associated with employee injuries and employers liability, the Water Authority maintained a \$15,000 retrospective allocation point (self-insured retention) per claim with limits of coverage provided by ACWA-JPIA per statutory requirements of the State of California.

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

In 1999, the Water Authority entered into an Owner Controlled Insurance Program to provide worker's compensation and general liability insurance to the contractors and professional liability, pollution liability and builders risk for the Emergency Storage Program. Premiums paid in fiscal years ended June 30, 2003 and 2002 were \$3,564,000 and \$2,222,000, respectively. 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.

(10) Commitments and Contingencies

Litigation

The Water 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 Water Authority.

Construction Projects

The Water 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 Water Authority's current Capital Improvement Program (CIP) is budgeted at approximately \$1.2 billion, to be expended over the next ten years.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(10) Commitments and Contingencies, (Continued)

The following material construction commitments existed at June 30, 2003:

<u>Project Name</u>	<u>Cumulative Expenditures as of June 30, 2003</u>	<u>Remaining Commitments</u>
Emergency Storage Project	\$ 328,058,000	\$ 65,191,000
Moreno-Lakeside Pipeline	17,316,000	12,337,000
Bradley Park Relocations Pipeline 3 & 4	1,744,000	6,845,000
Rancho Penasquitos Pressure Control/ Hydroelectric Facility	7,904,000	2,429,000

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 \$827 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 in coordination with the Olivenhain Municipal Water District. The ESP components at the Olivenhain site include pipelines and a pump station to connect the reservoir to the Second Aqueduct. Design and construction of a pump station and tunnel pipeline to connect Lake Hodges with the Olivenhain Reservoir are also part of the ESP. The portal and control gates for this tunnel pipeline on the Olivenhain Reservoir side, as well as an approximate 500-foot segment of tunnel, were constructed in conjunction with the Olivenhain Dam. A pumped storage project, separately funded from the ESP, is being designed and will be constructed concurrently with the ESP. The Olivenhain Dam facility is scheduled for completion in 2003, the Olivenhain Pump Station in 2004, and the Lake Hodges facility by 2008.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(10) Commitments and Contingencies, (Continued)

?? Modifications to the existing City of San Diego's San Vicente Dam, which would raise the dam by 54 feet and provide 52,000 acre-feet of emergency storage and the construction of a related pipeline and pump station which will connect the reservoir to the Second Aqueduct. The pump station will be completed in 2006, the pipeline in 2008, and the expansion of the San Vicente facilities by 2011. A separately funded project to provide carryover storage at the San Vicente Reservoir Site is being studied that would approximately double the ESP raise to a total of 110 feet and triple the additional storage to total 150,000 acre-feet.

Imperial Irrigation District Water Transfer Agreement and Transfer of Water from Lining of All-American and Coachella Canals

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" (transfer agreement). The terms of the transfer agreement provide for the transfer of conserved agricultural water, as defined by the transfer agreement, from the IID to the Water Authority, subject to certain terms and conditions. Terms of the transfer agreement have since been amended and revised to address environmental impacts of the transfer to the Salton Sea. Under terms of the revised transfer agreement, the Water Authority will contribute over time, \$64 million in additional funds to mitigate these impacts and pay other environmental costs.

The duration of the revised transfer agreement is for 45 years with renewal provisions for an additional 30 years, although the Water Authority may elect to terminate the transfer agreement after 35 years if the rate charged by MWD for transportation of the water is unacceptable. The quantity of conserved water to be transferred during year one of the transfer agreement will be 10,000 acre-feet per year (AFY) beginning in 2003. This amount will increase according to a predetermined schedule until a stabilized quantity of 200,000 AFY is reached.

The transfer agreement includes a set price for at least the first five years of deliveries. Between years six and fifteen, either party may require the use of a formula to determine the water's price that is indexed at a discount to the price of MWD water after an adjustment for the Water Authority's cost to convey the water to MWD's Colorado River Aqueduct. The transfer agreement also includes periodic installment payments during the first five years, totaling \$20 million for socio-economic impacts and prepaid water deliveries. IID will credit the Water Authority for these payments in later years.

On July 22, 1998, the Water 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. The SWRCB conducted hearings on the proposed water transfer from May through July 2002. On December 20, 2002, the SWRCB issued Permit 7643 approving the water transfer subject to certain conditions.

SAN DIEGO COUNTY WATER AUTHORITY
Notes to the Basic Financial Statements
(Continued)

(10) Commitments and Contingencies, (Continued)

Imperial Irrigation District Water Transfer Agreement and Transfer of Water from Lining of All-American and Coachella Canals, (Continued)

Additionally, on October 10, 2003, the Water Authority entered into an “Allocation Agreement” whereby the Water Authority will receive up to 77,700 AFY. The transferred water will be conserved from lining of the All-American and Coachella Canals, which transport water from the Colorado River to IID and the Coachella Valley Water District (CVWD). Under the Allocation Agreement and related state and federal law, the Water Authority will receive water conserved by the canal linings for 110 years. Costs of the canal lining up to \$200 million will be paid by the State of California, along with \$35 million for conjunctive water use projects. Also, the Water Authority is eligible for another \$20 million for canal lining construction costs pursuant to Proposition 50, which was passed in November 2003. Costs, if any, in excess of state contributions will be paid by the Water Authority. It is expected that transfer of the canal lining water will begin in 2006, with full ramp up of the transfer amount in 2008.

On November 10, 1998, the Water Authority and MWD agreed to an exchange contract which will facilitate the IID and canal lining transfers. That contract was amended and restated on October 10, 2003. Under the terms of the contract, the Water Authority will deliver water it acquires from IID and through the canal linings to MWD, in exchange for the same amount of MWD water. The exchange agreement applies to the IID transfer water for 45 years, and to the water conserved from canal linings for the term of the Allocation Agreement, which is at least 110 years. The price charged by MWD for exchange of the water will be at a lawful rate set by MWD.

Environmental review and assessment required by the California Environmental Quality Act (CEQA) and National Environmental Policy Act (NEPA) has been completed and the appropriate Notices of Determination and Record of Decision have been published.

(11) Operating Reserve Distribution

In June 2002, the Board of Directors of the Water Authority adopted new rates and charges for calendar year 2003, which decreased the variability of Water Authority net water sales revenues and decreased the amount of funds required to be held in reserve as insurance against such variance. On April 24, 2003, the Board of Directors amended the Operating Fund reserve policy decreasing the Operating Fund reserve at a maximum ending balance of 45 days, and approved refunding \$14 million to member agencies based upon total financial contribution to the Water Authority for fiscal years July 1, 1997 through June 30, 2002.

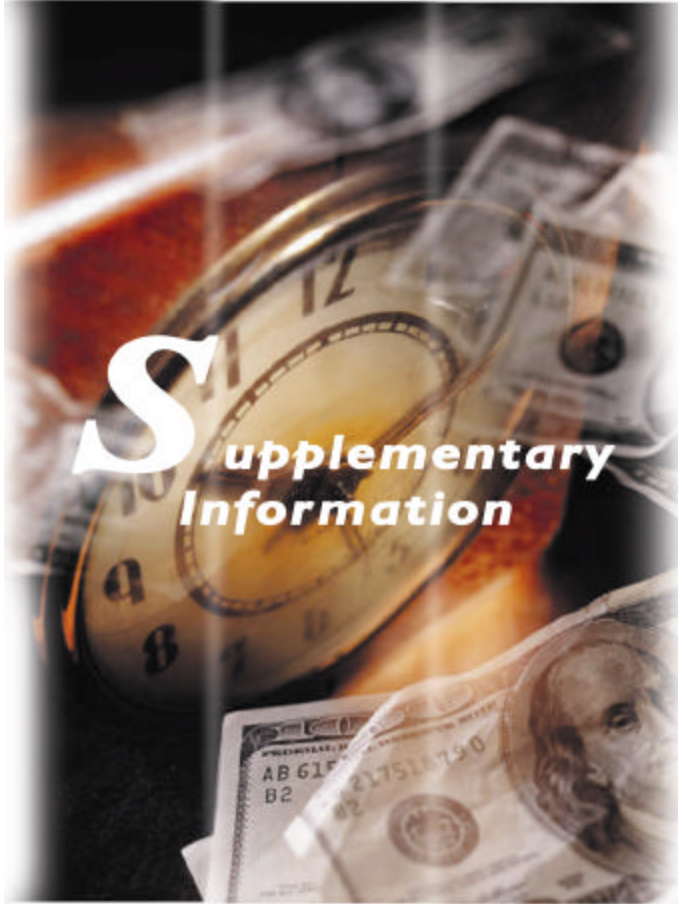
(12) Reclassification

The accompanying financial statements reflect the reclassification of accrued salaries and benefits resulting in a change to prior year’s accounts payable and other liabilities amount.

The reclassification is reflected on the Statements of Net Assets by an increase in accounts payable and other liabilities of \$45,000 and a deletion of the accrued salaries and benefits line item.

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San Diego County Water Authority

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San Diego County
Water Authority

SAN DIEGO COUNTY WATER AUTHORITY
Budget Comparison Schedule
Fiscal Year Ended June 30, 2003

Revenues	Original Budget	Final Budget	Actual Amounts	Variance (Unfavorable) with Final Budget
Water Sales	\$ 285,162,000	\$ 285,162,000	\$ 283,043,676	\$ (2,118,324)
Taxes	8,050,000	8,050,000	8,079,108	29,108
Interest Income ⁽¹⁾	19,573,000	19,573,000	17,958,698	(1,614,302)
Standby Charges	10,783,000	10,783,000	10,743,061	(39,939)
Capacity Charges	29,600,000	29,600,000	26,305,264	(3,294,736)
Infrastructure Access Charges	10,159,000	10,159,000	10,091,269	(67,731)
Other Income	1,670,000	1,670,000	2,990,191	1,320,191
Capital Reimbursements	11,097,000	11,097,000	11,079,371	(17,629)
Total Revenues	\$ 376,094,000	\$ 376,094,000	\$ 370,290,638	\$ (5,803,362)
Operating Budget ⁽²⁾				
Administrative Services	\$ 3,365,746	\$ 3,454,247	\$ 3,198,415	\$ 255,832
Engineering	1,557,207	1,814,707	1,617,149	197,558
Finance	1,749,192	1,749,192	1,402,067	347,125
General Counsel	1,253,457	1,643,456	1,472,666	170,790
General Manager	3,195,379	2,985,379	2,419,438	565,941
Human Resources	575,006	575,006	526,219	48,787
Imported Water	1,205,842	1,206,542	1,051,987	154,555
Operations & Maintenance	6,968,483	6,967,432	6,618,359	349,073
Public Affairs	2,327,698	2,192,697	1,998,426	194,271
Right of Way	1,321,158	1,321,158	1,200,963	120,195
Water Resources	3,941,167	4,050,167	3,820,764	229,403
Total Operating Budget	\$ 27,460,335	\$ 27,959,983	\$ 25,326,453	\$ 2,633,530
Expenditures				
Water Purchases	\$ 227,155,000	\$ 227,155,000	\$ 224,346,665	\$ 2,808,335
Capital Purchases	150,306,000	150,306,000	129,048,942	21,257,058
Debt Service ⁽³⁾	70,104,000	70,104,000	82,494,751	(12,390,751)
Equipment Replacement	2,640,000	2,640,000	2,042,914	597,086
Operating Budget	27,460,000	27,959,983	25,326,453	2,633,530
Operating Reserve Distribution	-	-	14,000,000	(14,000,000)
Total Expenditures	\$ 477,665,000	\$ 478,164,983	\$ 477,259,725	\$ 905,258

Notes: ⁽¹⁾ Does not include unrealized gains/losses.

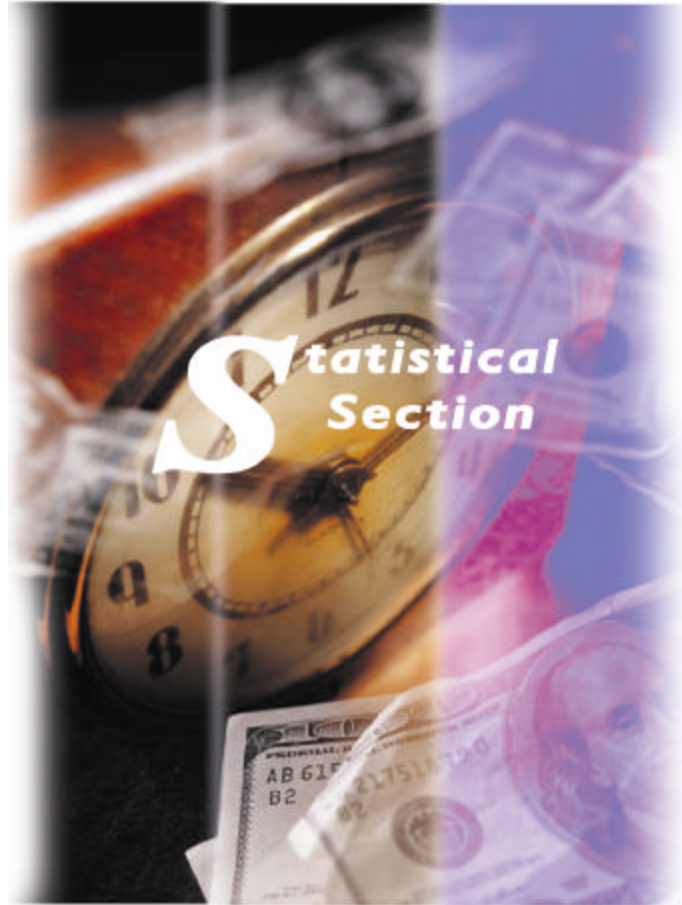
⁽²⁾ Operating Budget and expenditures include equipment purchases.

⁽³⁾ Includes amortization of discounts, premiums, and deferred refunding charge.

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San Diego County
Water Authority



San Diego County Water Authority

TABLE I
Revenues by Source
Last Ten Fiscal Years

Fiscal Year	Water Sales (1)	Other (2)	Total Operating Revenues	Property (3) Taxes	Standby Charges	Capacity Charges	Infrastructure Access Charges	Interest (4) Income	Other (5)	Total Revenues
2003	\$ 283,043,676	\$ 220,899	\$ 283,264,575	\$ 8,079,108	\$ 10,743,061	\$ 26,305,264	\$ 10,091,269	\$ 17,958,698	\$ 13,848,663	\$ 370,290,638
2002	294,526,126 (6)	353,659	294,879,785	7,575,066	10,696,052	24,951,437	9,967,572	16,593,042	15,375,870	380,038,824
2001	266,466,611	583,281	267,049,892	7,120,360	10,707,554	25,835,939	9,788,088	18,729,014	17,022,838	356,253,685
2000	261,207,548 (7)	301,704	261,509,252	6,664,964	10,829,579	21,499,736	9,626,382	19,822,838	8,169,034	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

Source: San Diego County Water Authority

Notes: (1) Includes Readiness-to-Serve charge assessed by the Metropolitan Water District (MWD).

(2) Hydroelectric sales.

(3) Includes all taxes including in-lieu taxes.

(4) Does not include unrealized gain/loss on investments.

(5) Other income and contributed capital from member agencies.

(6) Net of one-time refund to member agencies of \$7,159,000.

(7) Net of one-time refund to member agencies of \$6,268,000.

TOTAL REVENUES

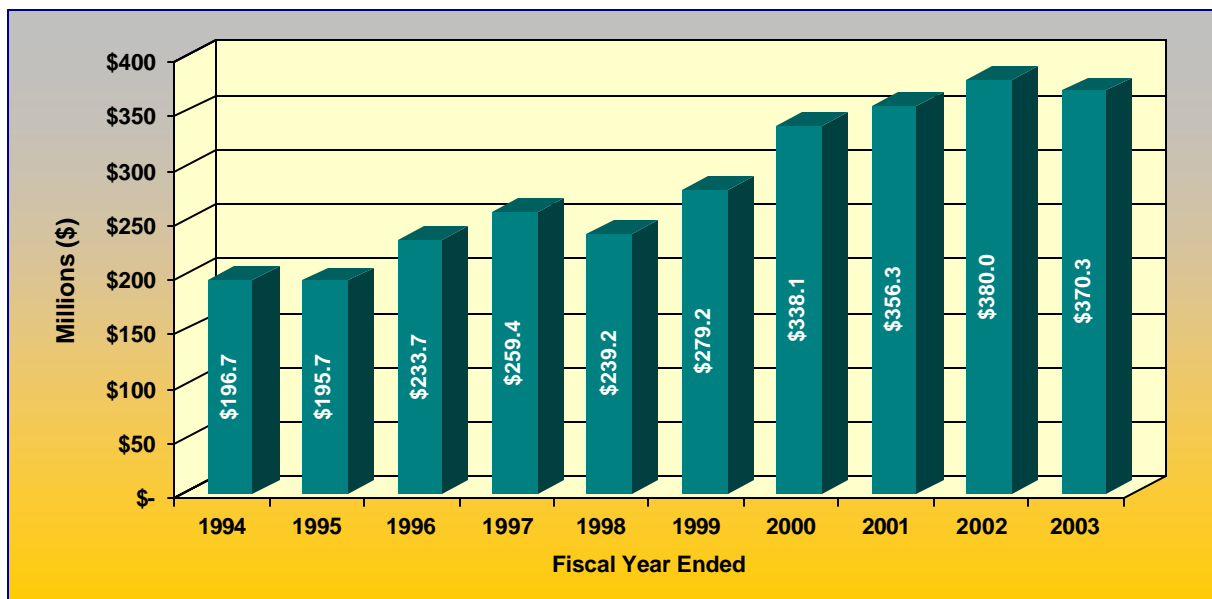


TABLE II
Water Sales Classification
Last Ten Fiscal Years

Fiscal Year Ended	Treated Water		Untreated Water		Total	
	Acre-Feet	Value (1)	Acre-Feet	Value (1)	Acre-Feet	Sales (1)
2003	273,707.0	\$ 126,412,573 ⁽²⁾	341,232.2	\$ 132,049,449 ⁽²⁾	614,939.2	\$258,462,022 ⁽²⁾
2002	299,163.2	143,469,479	360,009.1	148,781,737	659,172.3	292,251,216
2001	263,613.1	125,276,486	325,286.3	131,689,611	588,899.4	256,966,097
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

Source: San Diego County Water Authority

Notes: ⁽¹⁾ Total water sales do not include MWD's Readiness-to-Serve Charge, and are net of seasonal storage, agriculture and reclamation credits passed on to member agencies.

⁽²⁾ Amounts do not include MWD's Capacity Reservation Charge, and are reduced as a result of a new rate structure implemented effective January 2003 which reduced the per acre-foot water rate and implemented two new fixed charges (refer to table XIV).

WATER SALES IN ACRE-FEET
(Thousands)

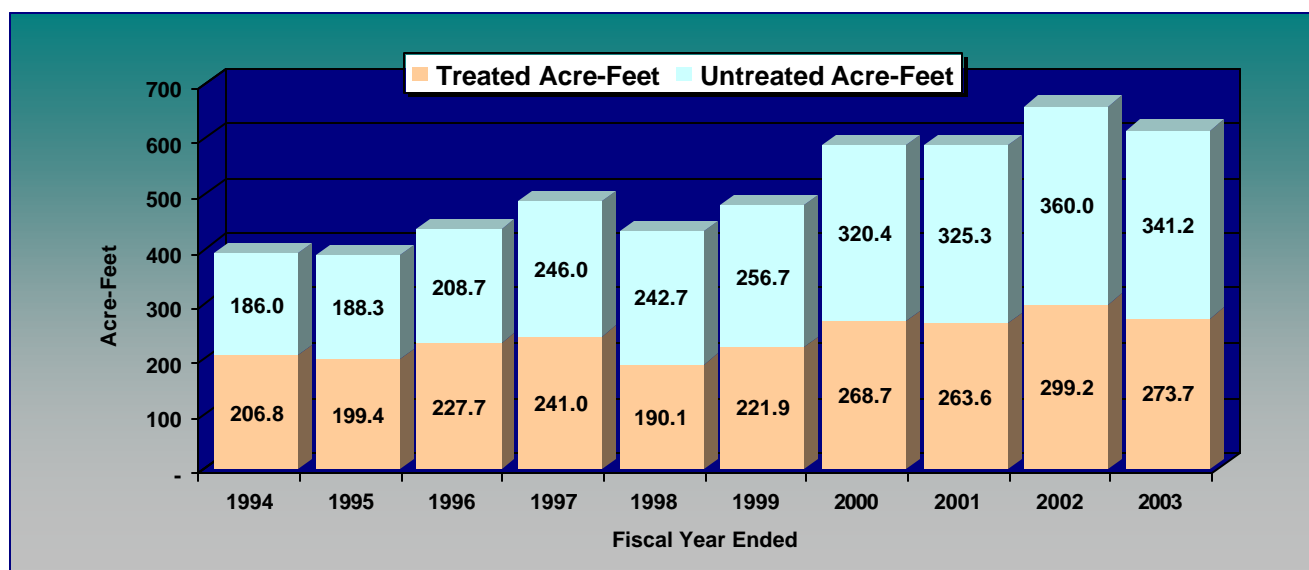


TABLE III
Expenditures by Function
Last Ten Fiscal Years

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
2003	\$ 224,346,665	\$ 9,056,787	\$ 3,812,187	\$ 11,932,722	\$ 17,644,556	\$ 42,446,252	\$ 25,603,186	\$ 14,317,565 (2)	306,713,668
2002	242,255,338	7,678,634	2,211,568	13,118,512	17,773,053	40,781,767	17,795,262	311,993	301,144,360
2001	214,480,281	7,083,079	2,138,805	12,572,810	15,259,863	37,054,557	21,055,038	471,306 (3)	273,061,182
2000	217,000,150	6,441,763	2,188,429	10,073,996	14,870,367	33,574,555	24,492,003	242,875	275,309,583
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 (3)	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 (3)	161,593,837

Source: San Diego County Water Authority

Notes: (1) Net of capitalized interest.

(2) Includes a \$14,000,000 refund of the Operating Fund reserve due to a change in the Operating Fund reserve policy decreasing the maximum ending balance to 45 days.

(3) Includes write down to expense on certain capital projects related to feasibility costs, which were not viable.

EXPENDITURES BY FUNCTION

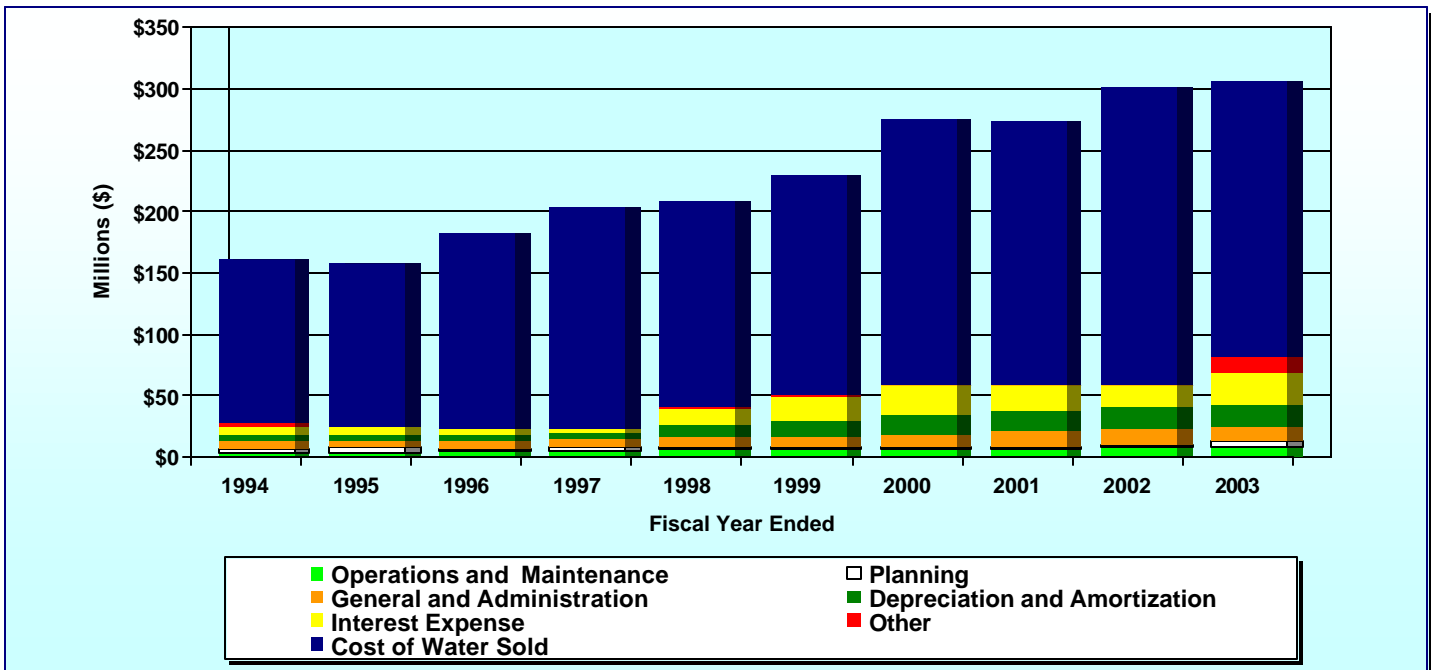


TABLE IV
Operating Expenses by Major Expense Category
Last Ten Fiscal Years

Fiscal Year Ended	Labor and Benefits	Outside Services	Supplies, Utilities, Insurance	Other Expenses	Capitalized Overhead	Total Operating Expenses (1)
2003	\$ 16,071,050	\$ 7,875,041	\$ 2,549,110	\$ 1,637,495	\$ (3,331,000)	\$ 24,801,696
2002	14,686,270	7,112,439	1,984,110	1,533,895	(2,308,000)	23,008,714
2001	13,737,329	6,897,096	2,097,192	1,371,077	(2,308,000)	21,794,694
2000	12,583,039	4,699,717	1,751,703	1,594,729	(1,925,000)	18,704,188
1999	12,203,318	3,779,157	1,849,780	1,309,359	(2,016,000)	17,125,614
1998	10,958,234	4,085,836	1,708,573	1,243,689	(1,035,000)	16,961,332
1997	10,169,648	2,120,120	1,599,735	1,159,964	(1,035,000)	14,014,467
1996	8,467,069	2,401,511	1,437,135	1,098,304	(1,035,000)	12,369,019
1995	7,935,867	3,136,977	1,328,473	957,675	(980,000)	12,378,992
1994	7,571,289	3,385,493	1,204,408	992,479	(536,051)	12,617,618

Source: San Diego County Water Authority
 Note: ⁽¹⁾ Excludes equipment purchases.

TOTAL OPERATING EXPENSES

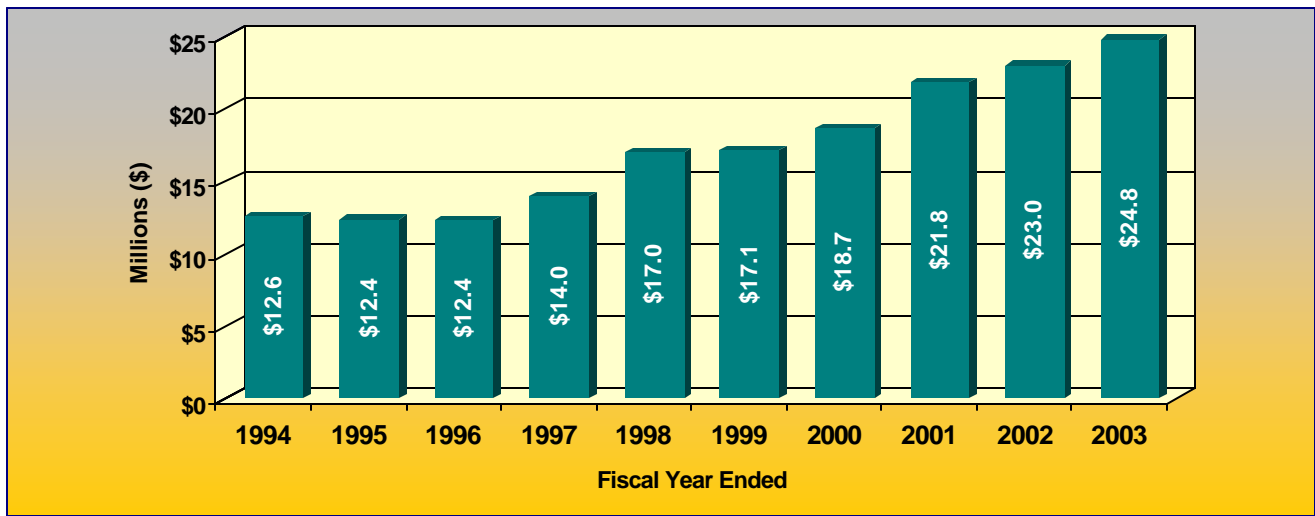


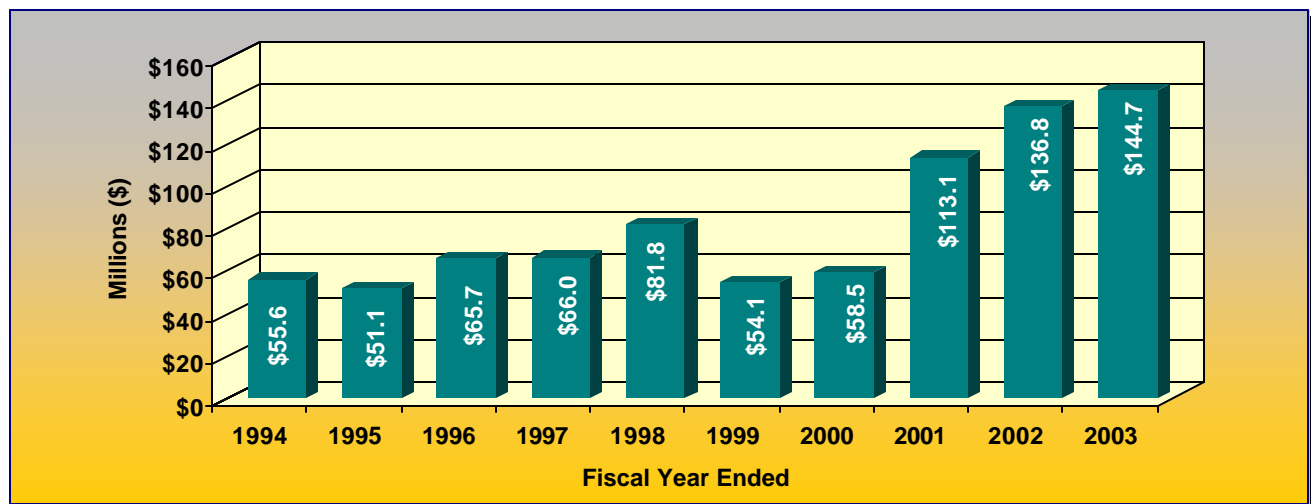
TABLE V
Capital Improvement Program by Major Expense Category
Last Ten Fiscal Years

Fiscal Year Ended	Labor and Benefits	Outside Services	Supplies, Utilities, Exemptions	Other Expenses	Capital Equipment	Capitalized Overhead	Capitalized Interest	Total
2003	\$ 7,087,636	\$ 110,016,673	\$ 4,819,138	\$ 267,824	\$ 3,526,671	\$ 3,331,000	\$ 15,629,000	\$ 144,677,942
2002	6,233,491	108,057,288	3,617,997	206,672	3,505,465	2,308,000	12,904,000	136,832,913
2001	5,109,815	83,410,716	2,736,815	436,356	8,451,686	2,308,000	10,656,000	113,109,388
2000	4,464,505	40,055,796	2,624,202	(1) 386,877	1,075,305	1,925,000	8,000,000	58,531,685
1999	3,895,378	27,754,838	607,970	(185,525)	9,630,568	2,016,000	10,400,000	54,119,229
1998	3,533,497	63,081,506	521,750	491,165	465,888	1,035,000	12,700,000	81,828,806
1997	3,373,994	36,658,726	483,928	605,700	701,427	1,035,000	23,150,000	66,008,775
1996	3,635,559	39,832,742	249,556	212,208	(835,542)	1,035,000	21,584,000	65,713,523
1995	3,533,699	23,060,246	469,860	189,722	2,221,986	980,000	20,654,000	51,109,513
1994	3,498,566	28,102,698	271,585	127,039	4,198,972	536,051	18,912,000	55,646,911

Source: San Diego County Water Authority

Note: ⁽¹⁾ The Water Authority implemented an Owner Controlled Insurance Program on the Emergency Storage Program.

TOTAL FISCAL YEAR EXPENDITURES



**TABLE VI
Capital Assets
Last Ten Fiscal Years**

Fiscal Year Ended	Land	Buildings	Pipelines	Valves Telemetering (1)	Miscellaneous Equipment (2)	Total Fixed Assets	Accumulated Depreciation	Capital Improvement Program	Net Capital Assets	Net Fixed Assets (3)
2003	\$ 8,560,585	\$ 100,194,156	\$ 768,522,873	\$ 22,773,407	\$ 28,908,254	\$ 928,959,275	\$ (138,719,779)	\$ 404,863,991	\$ 1,195,103,487	\$ 790,239,496
2002	8,399,965	83,909,966	768,259,138	20,570,715	28,389,538	909,529,322	(123,397,037)	279,976,532	1,066,108,817	786,132,285
2001 (4)	9,074,965	43,909,580	737,249,233	18,748,895	27,535,046	836,517,719	(109,482,152)	221,012,392	948,047,959	727,035,567
2000	5,699,065	31,573,020	704,969,163	23,138,872	16,488,404	781,868,524	(95,892,304)	162,886,957	848,863,177	685,976,220
1999	5,699,065	30,968,264	691,756,293	21,175,776	13,950,700	763,550,098	(81,603,244)	121,153,163	803,100,017	681,946,854
1998	5,175,965	30,349,638	491,726,569	20,106,168	13,354,945	560,713,285	(70,923,833)	271,318,892	761,108,344	489,789,452
1997	3,915,360	25,750,552	505,884,351	6,241,042	8,843,592	550,634,897	(62,136,829)	201,643,838	690,141,906	488,498,068
1996	3,915,360	8,991,474	162,801,366	13,711,210	7,430,347	196,849,757	(56,535,904)	488,938,587	629,252,440	140,313,853
1995	3,860,368	9,029,233	161,493,921	13,665,998	6,099,041	194,148,561	(52,069,890)	423,360,412	565,439,083	142,078,671
1994	4,070,768	6,133,048	167,289,091	7,186,571	5,108,892	189,788,370	(47,846,042)	376,784,410	518,726,738	141,942,328

Source: San Diego County Water Authority

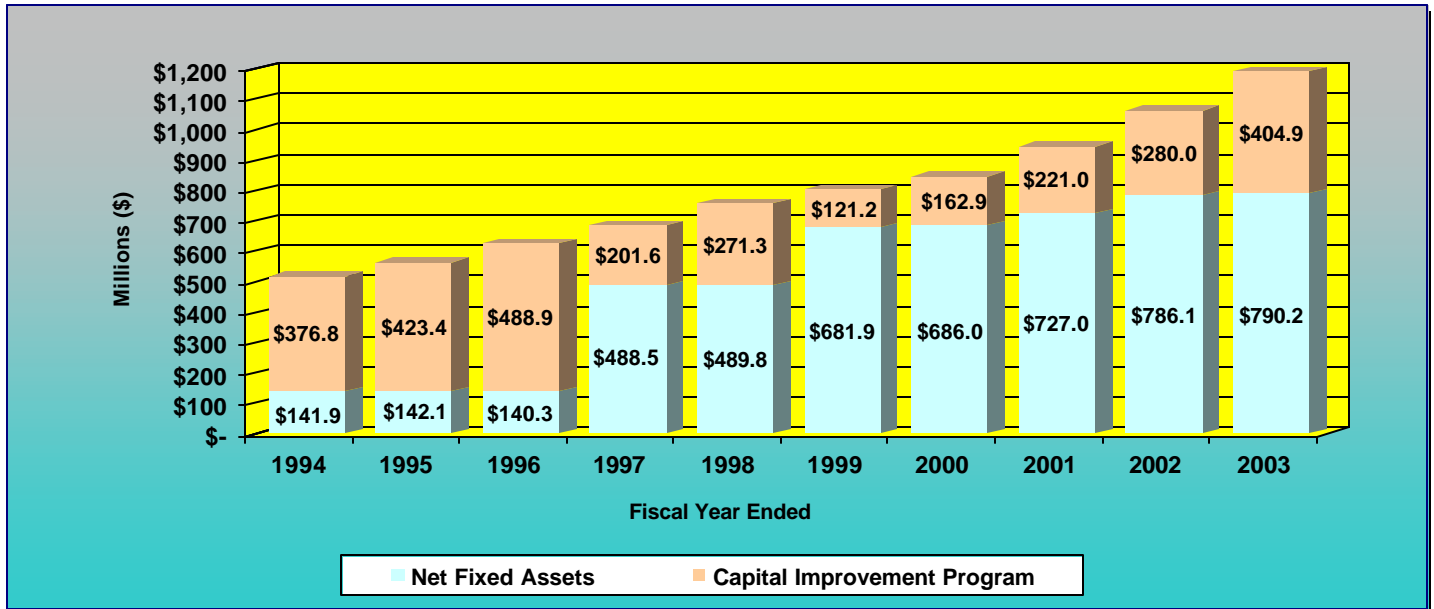
Notes: (1) Includes valves, pumps and telemetering equipment.

(2) Includes vehicles, computers, office equipment, furniture and fixtures.

(3) Fixed assets less accumulated depreciation.

(4) Fixed asset amounts restated to reflect changes in asset classifications made during 2002.

NET CAPITAL ASSETS



**TABLE VII
Debt Outstanding
Last Ten Years**

Fiscal Year Ended	Government Obligations	Commercial Paper	Certificates of Participation					Total Debt Outstanding
			1991 (1)	1993	1997 (2)	1998 (3)	2002 (4)	
2003	\$ 1,645,000	\$ 110,000,000	\$ 56,700,000	\$ 71,940,000	\$ 151,596,000	\$ 179,086,000	\$ 279,290,000	\$ 850,257,000
2002	3,220,000	110,000,000	69,000,000	81,895,000	150,689,000	179,024,000	296,063,000	889,891,000
2001	4,725,000	70,000,000	80,605,000	91,355,000	150,307,000	178,963,000	-	575,955,000
2000	6,165,000	70,000,000	91,555,000	100,345,000	149,498,000	178,901,000	-	596,464,000
1999	7,545,000	70,000,000	101,895,000	106,090,000	149,211,000	178,839,000	-	613,580,000
1998	8,865,000	70,000,000	111,670,000	111,570,000	148,489,000 (5)	-	-	450,594,000
1997	10,130,000	40,000,000	274,965,000	116,800,000	-	-	-	441,895,000
1996	11,340,000	40,000,000	283,740,000	121,805,000	-	-	-	456,885,000
1995	12,495,000	-	292,075,000	126,600,000	-	-	-	431,170,000
1994	13,877,000 (6)	-	300,000,000	131,200,000	-	-	-	445,077,000

Source: San Diego County Water Authority

- Notes: (1) Includes 1991 refunding deferred amounts.
 (2) Includes premium on issuance of 1997 costs.
 (3) Net of discount on 1998 COPs.
 (4) Net of discount on 2002 COPs.
 (5) Issued to advance refund \$154,035,000 of 1991 Certificates in December 1997.
 (6) Includes minor amounts due to the United States Bureau of Reclamation.

DEBT OUTSTANDING

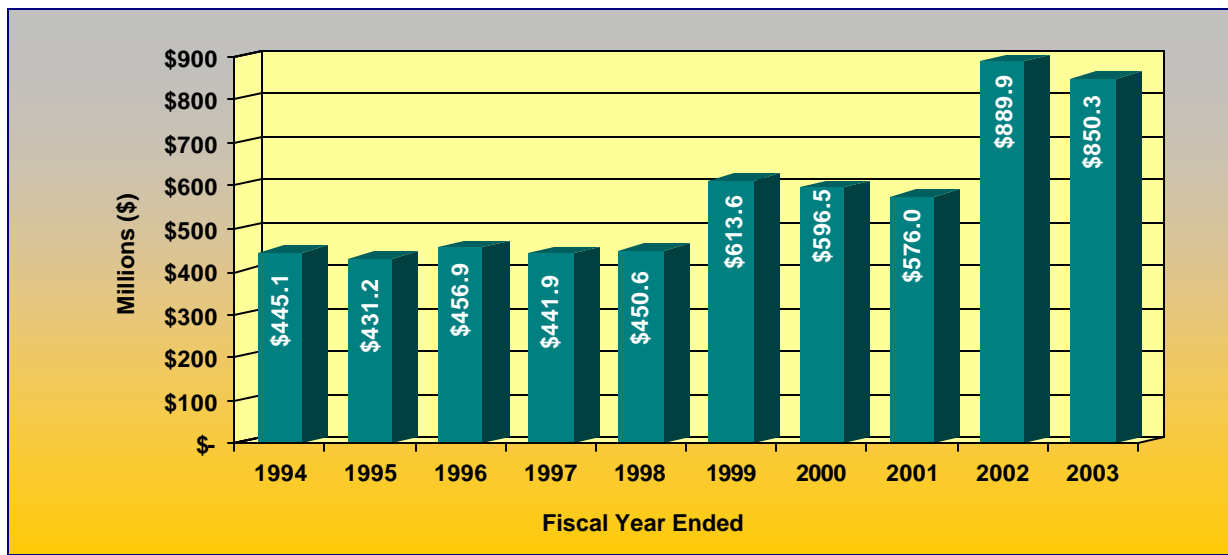


TABLE VIII
Senior Lien Debt Service Coverage
Last Ten Fiscal Years

Fiscal Year Ended	Gross Revenues	Operating Expenses (1)	Net Revenue Available for Debt Service	Senior Lien Debt Service			Coverage Factor
				Principal	Interest	Total	
2003	\$ 345,776,089	\$ 256,762,278	\$ 89,013,811	\$ 27,070,000 (4)	\$ 38,707,465	\$ 65,777,465	135%
2002	350,604,097 (2)	259,363,621	91,240,476	21,730,000	27,769,820	49,499,820	184%
2001	330,895,949	230,837,198	100,058,751	20,115,000	27,586,194	47,701,194	210%
2000	317,141,719 (3)	230,760,376	86,381,343	16,720,000	28,897,158	45,617,158	189%
1999	269,900,928	191,999,772	77,901,156	15,400,000	27,354,957	42,754,957	182%
1998	233,396,012	182,395,713	51,000,299	14,490,000	22,536,808	37,026,808	138%
1997	272,848,083	190,250,869	82,597,214	13,780,000	23,792,815	37,572,815	220%
1996	228,229,112	169,804,789	58,424,323	13,130,000	24,445,550	37,575,550	155%
1995	196,004,931	143,971,528	52,033,403	12,802,181	25,880,670	38,682,851	135%
1994	190,765,784	143,610,139	47,155,645	4,819,575	25,011,213	29,830,788	158%

Source: San Diego County Water Authority

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

(2) Reduced by amount transferred to the Rate Stabilization Fund.

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

(4) Excludes \$12,300,000 principal payment on 1991 COPs which was paid from debt proceeds.

**SENIOR LIEN
 DEBT SERVICE COVERAGE**

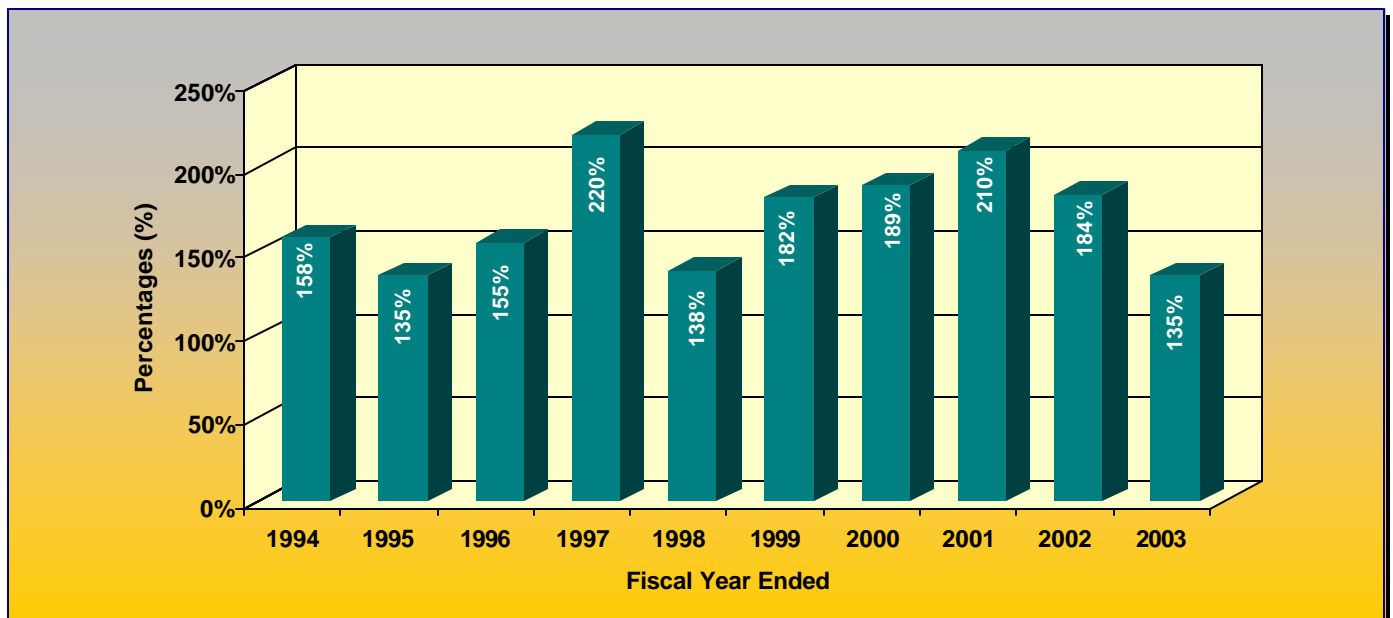


TABLE IX
Cash and Investments
Last Ten Years

Fiscal Year Ended	Operating Fund (1)	CIP/Bond Construction Fund (2)	Debt Service Reserve (3)	Pay-As-You-Go Fund (4)	Rate Stabilization Fund (5)	Equipment Replacement Fund (6)	Total Funds
2003	\$81,015,148	\$122,088,256	\$ 55,106,344	\$ 163,468,050	\$ 64,436,749 (7)	\$ 7,090,442	\$ 493,204,989
2002	71,823,241	269,834,963	55,106,344	143,421,713	61,619,358 (8)	5,574,391	607,380,010
2001	53,942,815	38,643,711	36,845,546	129,710,383	53,623,363 (9)	5,587,437	318,353,255
2000	44,726,861	105,410,067	36,845,546	105,273,353	43,072,185	4,270,226	339,598,238
1999	40,665,308	141,423,350	36,837,216	73,495,541	41,075,260	3,206,738	336,703,413
1998	24,914,087	16,333,448	21,453,991	60,080,343	39,008,772	2,158,061	163,948,702
1997	19,539,108	9,108,319	25,643,998	103,799,000	36,453,000	1,900,000	196,443,425
1996	18,441,421	34,164,000	25,643,998	77,388,000	55,453,000 (10)	-	211,090,419
1995	22,467,625	41,522,345	25,643,998	61,660,000	55,453,000	-	206,746,968
1994	8,985,511	69,187,345	25,643,998	57,737,000	61,153,000 (11)	-	222,706,854

Source: San Diego County Water Authority

Notes: (1) To be maintained at 60 Days average annual operating expenditures; changed to 45 days maximum during Fiscal Year 2003.

(2) Holds capital funds from debt issues for funding expenditures on capital improvement program (CIP).

(3) Restricted funds from bond issues for debt service payments.

(4) Holds Capacity Charge and Water Standby Availability Charge revenues that are restricted to being spent on the CIP.

(5) Funds reserved per bond covenants to mitigate rate shock in years of weak water sales and/or to manage debt service coverage.

(6) Used to fund the replacement of computer equipment and vehicles.

(7) \$1,400,000 was transferred from Rate Stabilization Fund to Operating Fund.

(8) \$5,276,000 was transferred from Operating Fund to Rate Stabilization Fund.

(9) \$6,762,000 was transferred from Operating Fund to Rate Stabilization Fund.

(10) \$19,000,000 was transferred from Rate Stabilization Fund to Operating Fund.

(11) \$5,700,000 was transferred from Rate Stabilization Fund to Operating Fund.

CASH AND INVESTMENT BY CATEGORY

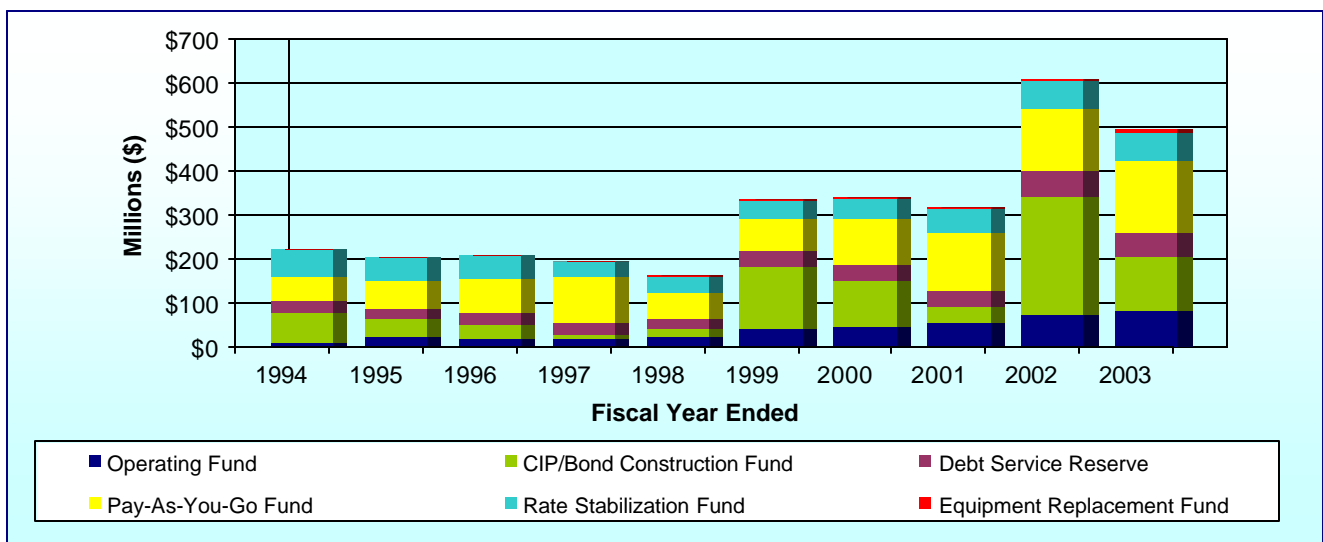


TABLE X
Ratio of Net General Bonded Debt to Assessed Value and
Net General Bonded Debt Per Capita
Last Ten Fiscal Years

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
2003	2,855,574	\$205,581,620,698	\$ 1,645,000	-	\$ 1,645,000	0.0000080	0.57607
2002	2,825,574	189,930,964,429	3,220,000	-	3,220,000	0.0000170	1.13959
2001	2,813,278	173,844,176,011	4,725,000	-	4,725,000	0.0000272	1.67954
2000	2,783,000	160,185,249,735	6,165,000	-	6,165,000	0.0000385	2.21524
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

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

NET GENERAL BONDED DEBT OUTSTANDING

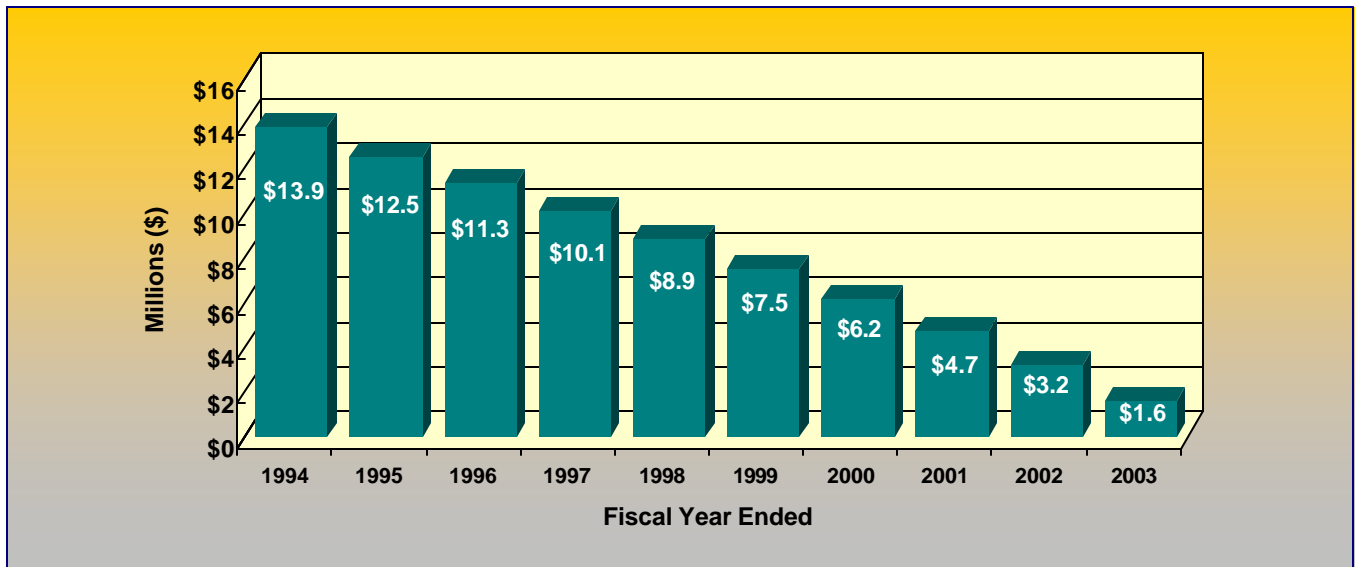


TABLE XI
Property Tax and Assessment Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended	Property Taxes	Special Assessments (1)	Total Levy	Total Collections (2)	Net Delinquent	Percent Delinquent
2003	\$ 7,087,762	\$ 10,730,852	\$ 17,818,614	\$ 17,433,296	\$ 385,318	2.16%
2002	6,643,136	10,674,464	17,317,600	16,952,618	364,982	2.11%
2001	6,265,580	10,641,256	16,906,836	16,463,702	443,134	2.62%
2000	5,806,670	10,782,862	16,589,532	16,166,744	422,788	2.55%
1999	5,469,653	10,370,103	15,839,756	15,402,265	437,491	2.76%
1998	5,207,949	10,582,737	15,790,686	15,312,439	478,247	3.03%
1997	5,036,723	10,593,952	15,630,675	15,008,933	621,742	3.98%
1996	4,949,117	10,624,075	15,573,192	14,859,610	713,582	4.58%
1995	5,090,956	10,669,634	15,760,590	14,964,983	795,607	5.05%
1994	5,402,697	10,659,007	16,061,704	15,010,045	1,051,659	6.55%

Source: San Diego County Water Authority and the Office of the Auditor & Controller, County of San Diego
 Notes: ⁽¹⁾ Represents the Water Authority's Water Standby Availability Charge.
⁽²⁾ Collections on current year tax levy.

TOTAL TAX COLLECTIONS

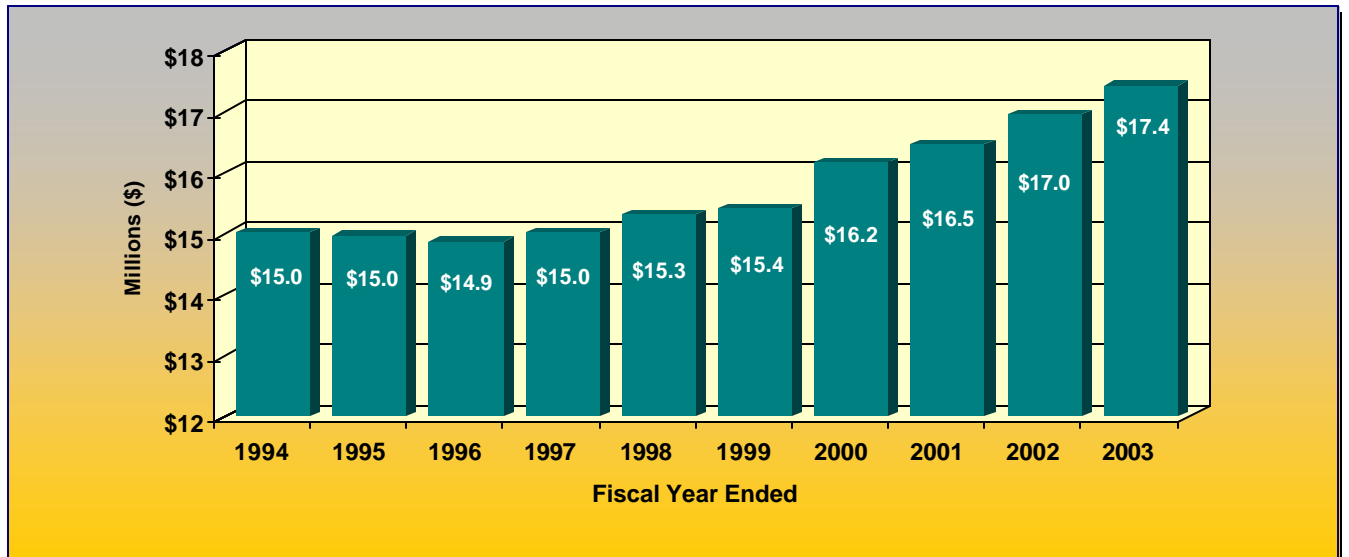


TABLE XII
Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended	Local Secured Property	State Secured Property	Exemptions	Net Assessed Secured Value	Assessed Unsecured Value	Total Assessed Value	Secured Tax (1) Rate (\$)	Unsecured Tax (1) Rate (\$)
2003	\$ 213,411,716,593	\$ 106,087,120	\$ 17,361,329,140	\$ 196,156,474,573	\$ 9,425,146,125	\$ 205,581,620,698	0.00075	0.00083
2002	195,543,487,502	116,762,403	15,198,976,703	180,461,273,202	9,469,691,227	189,930,964,429	0.00083	0.00091
2001	178,578,243,860	114,853,595	13,455,522,267	165,237,575,188	8,606,600,823	173,844,176,011	0.00091	0.00100
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

Source: Office of the Auditor & Controller, County of San Diego
 Notes: ⁽¹⁾ Per \$100 of assessed valuation.

TOTAL ASSESSED VALUE

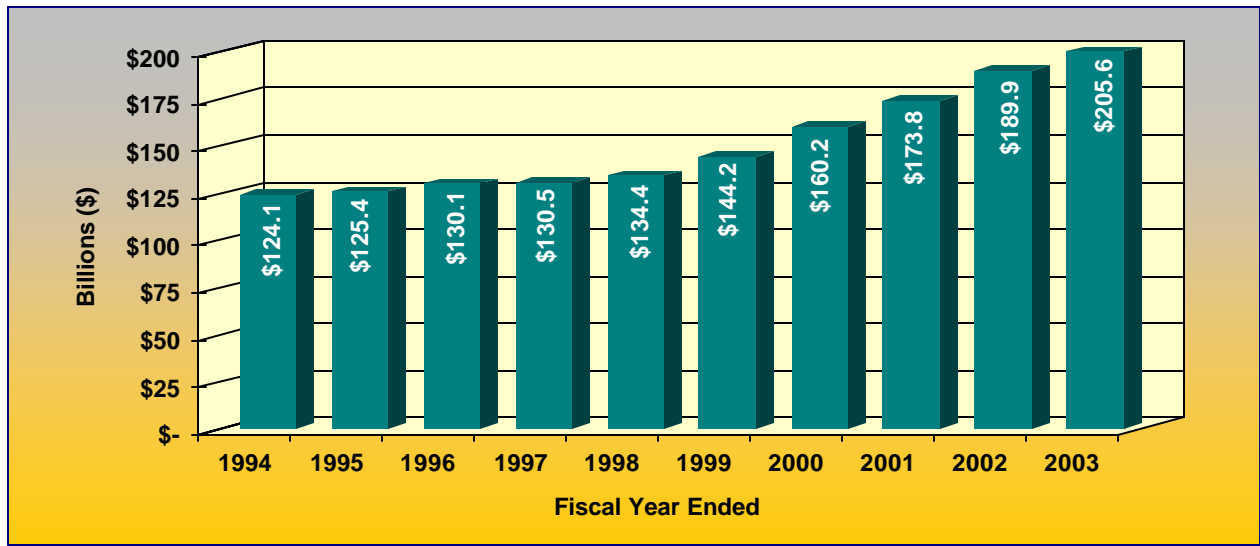


TABLE XIII
Computation of Direct and Overlapping Debt
June 30, 2003

SAN DIEGO COUNTY WATER AUTHORITY

2002-2003 Assessed Valuation	\$	210,269,322,991 ⁽¹⁾
Redevelopment Incremental Valuation		14,112,848,418
Adjusted Assessed Valuation	\$	196,156,474,573

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:

	% Applicable	Debt as of June 30, 2003
San Diego County Water Authority	100.000 %	\$ 1,645,000
Metropolitan Water District	18.007	80,004,201
Southwestern Community College District	70.974-99.960	176,492,636
San Diego Unified School District	99.960	764,679,233
San Diego Unified School District Lease Tax Obligations	99.960	67,817,862
Other Unified School Districts	various	263,790,543
High School Districts	various	99,926,962
School Districts	various	286,009,964
City of San Diego	99.956	15,683,096
City of San Diego Open Space Park District	99.956	36,458,951
Other Cities	98.617-100.000	9,345,391
Municipal Water District	99.999-100.000	12,224,992
Other Special Districts	100.000	890,000
Community Facilities Districts	100.000	928,594,811
1915 Act Bonds (Estimated)	100.000	223,654,730
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 2,967,218,372
<i>Less: City of San Diego Open Space Park District (100% self-supporting)</i>		<i>(36,458,951)</i>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 2,930,759,421

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

Notes: ⁽¹⁾ Includes local secured and state secured assessed valuations.

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

TABLE XIII
Computation of Direct and Overlapping Debt
June 30, 2003 (cont'd)

OVERLAPPING GENERAL FUND OBLIGATION DEBT:

	<u>% Applicable</u>	<u>Debt as of</u> <u>June 30, 2003</u>
San Diego County General Fund Obligations	96.438 %	\$ 458,899,034
San Diego County Pension Obligations	96.438	795,030,050
San Diego Superintendent of Schools Certificates of Participation	96.438	1,993,856
Community College District Certificates of Participation	79.103-99.960	38,562,717
Unified School District Certificates of Participation	90.772-99.715	78,600,857
Other School District General Fund Obligations	63.336-100.000	200,370,991
City of San Diego General Fund Obligations	99.956	549,298,202
Other City General Fund Obligations	98.617-100.000	466,697,503
Fallbrook Sanitary District General Fund Obligations	99.472	10,116,302
Municipal Water District Certificates of Participation	99.756-99.916	28,724,169
San Miguel Consolidated Fire Protection District General Fund Obligations	99.764	10,126,046
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 2,638,419,727
<i>Less:</i>		
<i>Grossmont Union High School District (100% self-supporting from tax increment revenues)</i>		7,160,458
<i>City of Oceanside self-supporting obligations</i>		2,274,209
<i>Otay Municipal Water District Certificates of Participation</i>		25,966,487
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 2,603,018,573
GROSS COMBINED TOTAL DEBT		\$ 5,605,638,099 (1)
NET COMBINED TOTAL DEBT		\$ 5,533,777,994

Ratios to 2002-03 Assessed Valuation:

Direct Debt (\$1,645,000)	0.001 percent
Total Gross Direct and Overlapping Tax and Assessment Debt	1.41 percent
Total Net Direct and Overlapping Tax and Assessment Debt	1.39 percent

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	2.86 percent (2)
Net Combined Total Debt	2.82 percent

STATE SCHOOL BUILDING AID REPAYABLE AS OF JUNE 30, 2003: \$1,614,072

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

Notes: (1) Includes local secured and state secured assessed valuations.

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

TABLE XIV
Schedule of Rates and Charges ⁽¹⁾
Last Ten Fiscal Years

Fiscal Year Ended	Water Rates									
	Supply Charges			Fixed Charges (2)		Standby (4) Charge	Capacity (5) Charge	Secured (6) Tax Rate	Unsecured (6) Tax Rate	Infrastructure (5) Access Charge
	Treated (3)	Untreated (3)	Agriculture	Customer Service Charge	Storage Charge					
2003	\$ 463 (7)	\$ 381 (7)	\$ 381 (7)	\$ 13,753,401	\$ 13,375,295	\$ 10	\$ 2,004	0.00075	0.00083	\$ 1
2002	526	444	429	-	-	10	2,004	0.00083	0.00091	1
2001	521	439	429	-	-	10	2,004	0.00091	0.00100	1
2000	521	439	429	-	-	10	1,871	0.00100	0.00107	1
1999	516	434	429 (8)	-	-	10	1,585	0.00107	0.00117	1
1998	511	429	-	-	-	10	1,585	0.00117	0.00126	-
1997	511 (9)	429 (9)	-	-	-	10	1,516	0.00126	0.00120	-
1996	506	424	-	-	-	10	1,461	0.00120	0.00135	-
1995	482	405	-	-	-	10	1,413	0.00135	0.00151	-
1994	455	388	-	-	-	10	1,413	0.00151	0.00332	-

Source: San Diego County Water Authority

Notes: ⁽¹⁾ Water rates, Capacity Charge and Infrastructure Access Charge are calendar year, rest of rates are fiscal year.

⁽²⁾ Effective January 1, 2003, a new rate structure was implemented resulting in a reduction per acre-foot water rate, and the addition of two new fixed charges:

The **Customer Service Charge** is allocated to member agencies based on each agency's three-year rolling average of all deliveries.

The **Storage Charge** is allocated to member agencies based on a pro-rata share of each agency's three-year rolling average of non-agricultural deliveries.

⁽³⁾ Per acre-foot of water before agriculture and seasonal storage credits given by MWD.

⁽⁴⁾ Per parcel or acre, whichever is less.

⁽⁵⁾ Per equivalent meter.

⁽⁶⁾ Per \$100 of assessed valuation.

⁽⁷⁾ Effective in 2003 with the new rate structure, this includes the Water Authority's Transportation Charge.

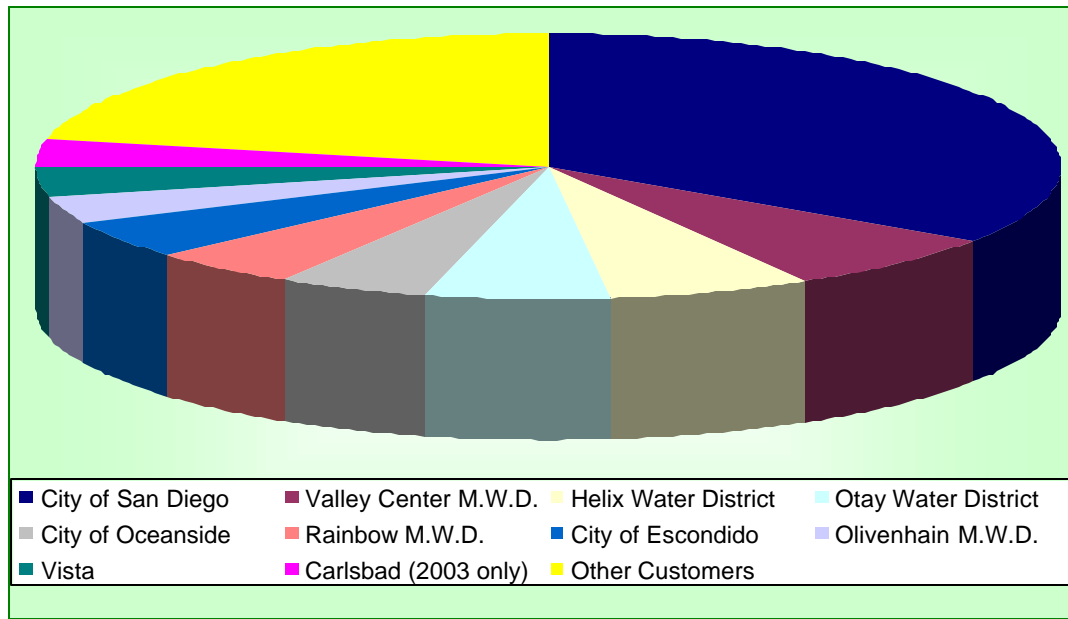
⁽⁸⁾ Special agriculture rate implemented January 1, 1999.

⁽⁹⁾ Effective dates changed from July 1 to January 1 of each year.

TABLE XV
Principal Water Consumers for
Fiscal Years Ended June 30 2003, and 2002

Member Agency	Fiscal Year Ended June 30, 2003		Fiscal Year Ended June 30, 2002	
	Sales (acre-feet)	Percent of Water Sold	Sales (acre-feet)	Percent of Water Sold
City of San Diego	212,746	34.6%	237,859	36.1%
Valley Center M.W.D.	43,675	7.1%	49,524	7.5%
Helix Water District	39,932	6.5%	42,447	6.4%
Otay Water District	34,536	5.6%	35,579	5.4%
City of Oceanside	30,202	4.9%	32,241	4.9%
Rainbow M.W.D.	28,995	4.7%	31,633	4.8%
City of Escondido	28,392	4.6%	29,706	4.5%
Olivenhain M.W.D.	21,425	3.5%	22,285	3.4%
Padre Dam M.W.D. (2002 only)	-	0.0%	21,331	3.2%
Vista	21,192	3.5%	19,753	3.0%
Carlsbad (2003 only)	20,278	3.3%	-	0.0%
Total Top Ten Customers	481,373	78.3%	522,358	79.2%
Other Customers	133,566	21.7%	136,814	20.8%
Total Water Sales	614,939	100.00%	659,172	100.00%

WATER SALES BY CUSTOMER FOR FISCAL YEAR ENDED JUNE 30, 2003



Source: San Diego County Water Authority

TABLE XVI
Demographic Statistics
As of June 30, 2003

Number of Member Agencies.....	23
Cities	6
Water Districts	4
Irrigation Districts.....	3
Municipal Water Districts	8
Public Utility Districts	1
Federal Agency (military base).....	1
The County of San Diego is a non-voting Special Representative	1
Water System	
Service Area.....	908,974 acres
Population of Service Area	est. 2,855,574
Number of Primary Pipelines.....	5
Miles of Pipeline (35 inches and larger)	279 mi.
Miles of Patrol Road Maintained	134 mi.
Number of Flow Control Facilities	119
Treated Water Pipeline Capacity	420 MGD
Untreated Water Pipeline Capacity.....	504 MGD
Average Daily Production (FY 2001-2002)	550 MGD
General Information	
Number of Regular Employees.....	220
Average Years of Service of Regular Employees.....	6.9 years

Source: San Diego County Water Authority

Note: MGD = million gallons per day

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*San Diego County
Water Authority*