NEW ISSUE- BOOK-ENTRY ONLY **NOT RATED**

(See "CONCLUDING INFORMATION - No Rating on the Bonds; Secondary Market" herein)

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Bonds is exempt from State of California personal income taxes. See "TAX MATTERS" herein.

$3,120,000
OTAY WATER DISTRICT FINANCING AUTHORITY
2019 WASTEWATER REVENUE BONDS

Dated: Date of Delivery **Due: September 1, as shown on the inside front cover page.**

The cover page contains certain information for general reference only. It is not a summary of the issue. Potential investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the Bonds.

The Otay Water District Financing Authority 2019 Wastewater Revenue Bonds (the "Bonds") are payable from revenues pledged under the Indenture (defined below) consisting of Installment Payments (defined herein) to be made by the Otay Water District (the "District") to the Otay Water District Financing Authority (the "Authority") pursuant to an Installment Sale Agreement, as described herein and from investment earnings on funds held under the Indenture (the "Revenues"). The Bonds will be issued pursuant to an Indenture of Trust, dated as of December 1, 2019 (the "Indenture"), by and between the Authority and MUFG Union Bank, N.A., as trustee (the "Trustee"). The Bonds are being issued to provide funds to pay for certain capital improvements to the District's wastewater system (the "Wastewater System"). See "THE FINANCING PLAN" herein. The District is required under the Installment Sale Agreement to make the Installment Payments in each fiscal year from Net Revenues of the Wastewater System in an amount sufficient to pay the annual principal and interest due on the Bonds, as described herein. See "SOURCES OF PAYMENT FOR THE BONDS" and "RISK FACTORS" herein.

Interest on the Bonds is payable on March 1, 2020, and semiannually thereafter on September 1 and March 1 of each year until maturity. The Bonds are subject to optional, mandatory sinking fund and special redemption prior to maturity (see "THE BONDS - General Provisions" and "THE BONDS - Redemption" herein).

The Bonds are special, limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues (consisting principally of Installment Payments received from the District). Neither the full faith and credit of the Authority nor its members (including the District) is pledged for the payment of the Bonds and no tax or other source of funds other than the Revenues is pledged to pay the Bonds. The Bonds do not constitute a debt, liability or obligation of the Authority or any member of the Authority (including the District) in violation of any constitutional or statutory debt limitation or for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power. The obligation of the District to pay Installment Payments under the Installment Sale Agreement is secured solely by the Net Revenues of the Wastewater System. The full faith and credit of the District is not pledged for the payment of the Installment Payments and no tax or other source of funds other than the Net Revenues is pledged to pay the Installment Payments. The Installment Payments do not constitute a debt, liability or obligation of the District in violation of any constitutional or statutory debt limitation.

The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Hawkins Delafield & Wood LLP, San Francisco, California, as Bond Counsel. Certain legal matters will be passed on for the District and the Authority by Artiano Shinoff, San Diego, California, as General Counsel to the District and the Authority, and by Hawkins Delafield & Wood LLP, San Francisco, California, as Disclosure Counsel. Certain legal matters will be passed on for the Underwriter by its counsel, Nixon Peabody LLP, Los Angeles, California. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company on or about December 12, 2019 (see "THE BONDS - General Provisions" herein).

The date of the Official Statement is November 19, 2019.

HilltopSecurities
A Hilltop Holdings Company.

$3,120,000
OTAY WATER DISTRICT FINANCING AUTHORITY
2019 WASTEWATER REVENUE BONDS

MATURITY SCHEDULE
$1,620,000 Serial Bonds
(Base CUSIP®† 68881C)

Maturity Date September 1	Principal Amount	Interest Rate	Reoffering Yield	Reoffering Price	CUSIP®†
2021	$ 65,000	2.000%	1.260%	101.254	AA2
2022	70,000	2.000	1.430	101.514	AB0
2023	75,000	2.000	1.550	101.619	AC8
2024	75,000	3.000	1.730	105.730	AD6
2025	80,000	3.000	1.820	106.380	AE4
2026	80,000	3.000	1.920	106.776	AF1
2027	85,000	3.000	2.000	107.118	AG9
2028	85,000	3.000	2.100	107.134	AH7
2029	90,000	3.000	2.220	106.783	AJ3
2030	90,000	3.000	2.400	105.171*	AK0
2031	95,000	2.500	2.600	98.993	AL8
2032	95,000	2.600	2.710	98.821	AM6
2033	100,000	2.700	2.800	98.865	AN4
2034	100,000	2.750	2.880	98.446	AP9
2035	105,000	2.800	2.930	98.369	AQ7
2036	105,000	2.875	2.970	98.752	AR5
2037	110,000	2.875	3.010	98.153	AS3
2038	115,000	2.875	3.040	97.655	AT1

$485,000 3.000% Term Bonds maturing September 1, 2042, Yield 3.180%, Price 97.100 CUSIP®† AU8

$1,015,000 3.125% Term Bonds maturing September 1, 2049, Yield 3.270%, Price 97.253 CUSIP®† AV6

---

* Priced to the first optional call date of September 1, 2029 at par.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Authority, the District, the Municipal Advisor or the Underwriter and are included solely for the convenience of the holders of the Bonds. None of the Authority, the District, the Municipal Advisor or the Underwriter is responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described in this Official Statement.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the District, any press release and any oral statement made with the approval of an authorized officer of the District or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the District or the Municipal Advisor. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Preparation of This Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of the Bonds, the Indenture or other documents, are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the District Secretary for further information. See "INTRODUCTION - Summaries Not Definitive."

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Bonds are Exempt From Securities Laws Registration. The issuance, sale and delivery of the Bonds has not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the execution, sale and delivery of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(l2) of the Securities Exchange Act of 1934.

Stabilization of Prices. In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

District Website. The District maintains a website. The information on such website is not part of this Official Statement and is not intended to be relied on by investors with respect to the Bonds unless specifically set forth or incorporated herein.

OTAY WATER DISTRICT

SAN DIEGO COUNTY, CALIFORNIA

BOARD OF DIRECTORS

Mitch Thompson, *President - Division 2*
Mark Robak, *Vice President - Division 5*
Hector Gastelum, *Treasurer Division 4*
Gary D. Croucher, *Division 3*
Tim Smith, *Division 1*

MANAGEMENT TEAM

Mark Watton, *General Manager*
Adolfo Segura, *Chief, Administrative Services*
Rod Posada, PE, PLS, CCM, *Chief, Engineering*
Joseph R. Beachem, CPA, MBA, MPA, *Chief Financial Officer*
Pedro Porras, PE, *Chief, Water Operations*
Dan Martin, PE, *Assistant Chief, Engineering*
Kevin Koeppen, CPA *Assistant Chief, Finance*
Jose Martinez, *Assistant Chief, Water Operations*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel
Hawkins Delafield & Wood LLP
San Francisco, California

General Counsel to the District and the Authority
Artiano Shinoff
San Diego, California

Municipal Advisor
Harrell & Company Advisors, LLC
Orange, California

Trustee
MUFG Union Bank, N.A.
Los Angeles, California

TABLE OF CONTENTS

OTAY WATER DISTRICT
LOCATION MAP

OFFICIAL STATEMENT

$3,120,000
OTAY WATER DISTRICT FINANCING AUTHORITY
2019 WASTEWATER REVENUE BONDS

This Official Statement which includes the cover page, the inside front cover page and appendices (the "Official Statement") is provided to furnish certain information concerning the sale of the Otay Water District Financing Authority 2019 Wastewater Revenue Bonds (the "Bonds"), in the aggregate principal amount of $3,120,000.

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision (see "RISK FACTORS" herein). For definitions of certain capitalized terms used herein and not otherwise defined, and the terms relating to the Bonds, see the summary included in "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

The District

The Otay Water District (the "District") was established in 1956. The District is a municipal water district organized and existing under and in accordance with Division 20 of the Water Code of the State of California, commencing with Section 71000, as amended (the "Law"). The District's boundaries currently encompass an area of approximately 125 square miles in San Diego County, lying immediately east of the San Diego metropolitan area and running from the City of El Cajon south to the Mexican border, abutting the cities of El Cajon and La Mesa and encompassing most of the City of Chula Vista and a small portion of the City of San Diego. The District currently serves a population of approximately 223,000 and expects the service area to experience moderate growth in the next ten years (see "OTAY WATER DISTRICT" and "APPENDIX C - ECONOMIC PROFILE FOR THE COUNTY OF SAN DIEGO" herein). Approximately 15,300 of the District's customers are served by the District's wastewater system (see "THE WASTEWATER SYSTEM" herein).

The District is administered by a Board of Directors consisting of five members who are elected to four-year alternating terms by the voters residing within the District's boundaries. The District is divided into five divisions, with each Director representing a specific division within which he or she must reside. The positions of General Manager and General Counsel are filled by appointments of the Board. The District employs 137 full-time equivalent employees.

The Authority

The Otay Water District Financing Authority (the "Authority") is a joint exercise of powers authority organized and existing under and by virtue of the Joint Exercise of Powers Act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the "Joint Powers Act"). The District and the California Municipal Finance Authority, a joint exercise of powers authority, formed the Authority by the execution of a joint exercise of powers agreement on March 3, 2010. The Authority functions as an independent entity and was formed to assist the District in the financing of public capital improvements. Pursuant to the Joint Powers Act, the Authority is authorized to issue revenue bonds to provide funds to finance and refinance public capital improvements of the District, with such revenue bonds to be repaid from the installment payments for such improvements, such as the installment payments described herein.

The Authority is governed by a five-member Board which consists of all members of the District's Board of Directors. The Board President serves as the Chairman of the Authority. The General Manager acts as the Executive Director, the District Secretary acts as the Secretary, and the Chief Financial Officer acts as the Treasurer/Auditor of the Authority.

The Wastewater System

The District provides sewer service to approximately 15,300 customers through 4,729 accounts located in the northern section of the District. The District operates and maintains the sewage collection system serving Rancho San Diego, Singing Hills, and portions of Mount Helix, all within the Upper Sweetwater River Basin. This basin is also known as the Jamacha Basin. Residential customers comprise 97.3% of the customer base.

Wastewater collection within the Jamacha Basin is provided by two agencies, the District and the County of San Diego (the "County"). Customers in the basin, not served by either agency, dispose of their sewage through septic tanks. After the sewage has been collected, it is sent to the District's Ralph W. Chapman Water Reclamation Facility treatment plant where the District produces recycled water. The by-product of the treatment process is discharged through the County's transmission system into the City of San Diego Metropolitan Wastewater system (the "Metro System").

The District is a member of Metro Wastewater Joint Powers Authority (the "Metro JPA") and shares in the use of the City of San Diego's regional wastewater facilities. A significant amount of the sewer operation costs is for sewer service charges from the Metro JPA. Additionally, the District also pays its share of the County's operation and maintenance cost of the Rancho San Diego Outfall and the Spring Valley Outfall to transport sewage to the Metro System. See "THE WASTEWATER SYSTEM - San Diego Metropolitan Sewerage System" herein.

Sources of Payment for the Bonds

The Bonds. The Bonds are being issued pursuant to the Joint Powers Act and an Indenture of Trust, dated as of December 1, 2019 (the "Indenture"), by and between the Authority and MUFG Union Bank, N.A., Los Angeles, California, as trustee (the "Trustee"). The Bonds are being issued to provide funding for the Project, as defined herein. The proceeds of the Bonds deposited in the Project Fund will be used by the District for the acquisition, construction and installation of the Project. A portion of the proceeds will also be used to pay costs of issuance.

The Bonds are secured by the "Revenues," consisting of Installment Payments (defined herein) to be made by the District to the Authority pursuant to an Installment Sale Agreement, dated as of December 1, 2019 (the "Installment Sale Agreement") by and between the Authority and the District and from investment earnings on funds held under the Indenture. The District is obligated to make installment payments to the Authority under the Installment Sale Agreement (the "Installment Payments") from Net Revenues (defined herein), and the Authority is, in turn, required under the Indenture to use the Installment Payments to pay interest on and principal of the Bonds.

The Installment Payments are scheduled to be sufficient to pay, when due, the annual principal and interest on the Bonds. Pursuant to the Indenture, the Authority will assign to the Trustee, for the benefit of the Owners of the Bonds, all of its rights, title and interest under the Installment Sale Agreement except for its right to be indemnified by the District. For a summary of the Indenture and the Installment Sale Agreement see “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein.

The Installment Payments. The Installment Sale Agreement is being executed and delivered to finance the construction of the Project. See “THE FINANCING PLAN” and “THE WASTEWATER SYSTEM.” The Installment Payments are secured by a charge and lien on Net Revenues of the Wastewater System. See “SOURCES OF PAYMENT FOR THE BONDS” herein.

The Bonds are limited obligations of the Authority and are payable solely from and secured solely by the Revenues and all moneys on deposit in any of the funds and accounts established and held by the Trustee under the Indenture. The District’s obligation to make the Installment Payments is a limited obligation of the District payable solely from Net Revenues of the Wastewater System, and neither the full faith and credit nor the taxing power of the District, the State of California or any of its political subdivisions is pledged for the payment of the Bonds. Neither the Bonds nor the obligation of the District to make Installment Payments constitutes an indebtedness of the Authority, the District, the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

No Reserve Fund

The Authority will not establish or fund a reserve fund for the Bonds.

Offering of the Bonds

Authority for Issuance and Delivery. The Bonds are to be issued pursuant to the Joint Powers Act, the Indenture and Resolution No. 2019-01 of the Authority adopted on November 6, 2019.

Offering and Delivery of the Bonds. The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Bond Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about December 12, 2019 through the facilities of The Depository Trust Company.

Summaries Not Definitive

The summaries and references contained herein with respect to the Indenture, the Bonds and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of these documents may be obtained after delivery of the Bonds from the District at 2554 Sweetwater Springs Blvd., Spring Valley, California 91978.

[Remainder of Page Intentionally Left Blank]

THE BONDS

General Provisions

Bond Terms. The Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of $5,000 or any integral multiple of $5,000. The Bonds will mature in the amounts and on the dates, and bear interest at the annual rates, set forth on the inside front cover page of this Official Statement.

The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of $5,000 or any integral multiple of $5,000, under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal and interest with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See "APPENDIX F - THE BOOK-ENTRY SYSTEM" for further information regarding DTC and the book-entry system.

Payments of Principal and Interest. Principal of the Bonds will be payable in accordance with the maturity schedule shown on the inside front cover page of this Official Statement, subject to any optional or mandatory sinking fund redemptions prior to maturity (see "Redemption" below). Interest on the Bonds will be payable on March 1 and September 1 in each year, commencing on March 1, 2020 (each an "Interest Payment Date"). Interest will be calculated on the basis of a 360-day year of twelve 30-day months.

While the Bonds are subject to the book-entry system, the principal and interest with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See "APPENDIX F - THE BOOK-ENTRY SYSTEM."

Redemption

Optional Redemption From any Source of Available Funds. The Bonds maturing on or before September 1, 2029 are not subject to optional redemption prior to their respective stated maturity dates.

The Bonds maturing on or after September 1, 2030, are subject to redemption in whole, or in part at the Written Request of the District, among maturities on such basis as the District may designate and by lot within a maturity, at the option of the District, on any date on or after September 1, 2029, from any available source of funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 2042 and September 1, 2049 (the "Term Bonds") are also subject to redemption, by lot, on September 1 in each of the years as set forth in the following tables, from deposits made for such purpose under the Indenture, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof may be purchased in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, that if some but not all of the Term Bonds have been redeemed through optional redemption as described above, the total amount of all future sinking fund payments with respect to such Term Bonds will be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such payments in integral multiples of $5,000 as determined by the District.

Term Bond Maturing September 1, 2042

Sinking Fund Redemption Date (September 1)	Principal Amount To Be Redeemed
2039	$115,000
2040	120,000
2041	125,000
2042 (Maturity)	125,000

Term Bond Maturing September 1, 2049

Sinking Fund Redemption Date (September 1)	Principal Amount To Be Redeemed
2043	$130,000
2044	135,000
2045	140,000
2046	145,000
2047	150,000
2048	155,000
2049 (Maturity)	160,000

Special Redemption in the Event of Conveyance of Wastewater Operations to San Diego County. The Bonds maturing on or after September 1, 2023 are subject to mandatory redemption prior to their respective stated maturity dates in the event the District's Wastewater Operations are conveyed to San Diego County, from any available source of funds, on any date after September 1, 2022 at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, plus a premium as shown in the following table:

Redemption Period	Redemption Price
September 2, 2022 through and including August 31, 2029	103%
On or after September 1, 2029	100%

Notwithstanding the foregoing, in lieu of redemption of Bonds in the event of conveyance of Wastewater Operations to San Diego County, the District may defease all of the Bonds in accordance with the terms of the Indenture and Installment Sale Agreement.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all the Bonds of a single maturity, the District will select the Bonds of that maturity to be redeemed by lot in any manner that the District in its sole discretion deems appropriate. For purposes of such selection, the District will treat each Bond as consisting of separate $5,000 portions and each such portion will be subject to redemption as if such portion were a separate bond.

Notice of Redemption. The Trustee will mail notice of redemption of the Bonds by first class mail, postage prepaid, not less than 30 nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories, and will be filed electronically with the Municipal Securities Rulemaking Board or such other services providing information with respect to called bonds in accordance with then-current guidelines of the Securities and Exchange Commission.

Neither the failure to receive any redemption notice nor any defect therein will affect the sufficiency of the proceedings for redemption of the Bonds or the cessation of accrual of interest from and after the redemption date.

Rescission of Redemption Notice. The District has the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The Trustee will mail notice of rescission of redemption in the same manner notice of redemption was originally provided.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, including any applicable premium, the Bonds (or portions thereof) so called for redemption are held by the Trustee, on the redemption date designated in the redemption notice, then the Bonds (or portions thereof) so called for redemption will become due and payable, interest on the Bonds so called for redemption will cease to accrue, those Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of those Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

[Remainder of Page Intentionally Left Blank]

Scheduled Debt Service

The following presents the annual debt service on the Bonds, assuming no optional redemption prior to maturity.

Bond Year Ending September 1	**Principal**	**Interest**	**Total**
2020	$ -	$ 65,283.29	$ 65,283.29
2021	65,000.00	90,741.26	155,741.26
2022	70,000.00	89,441.26	159,441.26
2023	75,000.00	88,041.26	163,041.26
2024	75,000.00	86,541.26	161,541.26
2025	80,000.00	84,291.26	164,291.26
2026	80,000.00	81,891.26	161,891.26
2027	85,000.00	79,491.26	164,491.26
2028	85,000.00	76,941.26	161,941.26
2029	90,000.00	74,391.26	164,391.26
2030	90,000.00	71,691.26	161,691.26
2031	95,000.00	68,991.26	163,991.26
2032	95,000.00	66,616.26	161,616.26
2033	100,000.00	64,146.26	164,146.26
2034	100,000.00	61,446.26	161,446.26
2035	105,000.00	58,696.26	163,696.26
2036	105,000.00	55,756.26	160,756.26
2037	110,000.00	52,737.50	162,737.50
2038	115,000.00	49,575.00	164,575.00
2039	115,000.00	46,268.76	161,268.76
2040	120,000.00	42,818.76	162,818.76
2041	125,000.00	39,218.76	164,218.76
2042	125,000.00	35,468.76	160,468.76
2043	130,000.00	31,718.76	161,718.76
2044	135,000.00	27,656.26	162,656.26
2045	140,000.00	23,437.50	163,437.50
2046	145,000.00	19,062.50	164,062.50
2047	150,000.00	14,531.26	164,531.26
2048	155,000.00	9,843.76	164,843.76
2049	160,000.00	5,000.00	165,000.00
Total	$3,120,000.00	$1,661,736.03	$4,781,736.03

Annual Installment Payments related to the Bonds are set forth in the following table. The payments are calculated on an accrual basis for each July 1 to June 30 period, consistent with the debt service calculations that will be made for the District's Comprehensive Annual Financial Report.

Fiscal Year Ending June 30	Installment Payments
2020	$ 50,160
2021	90,741
2022	154,658
2023	158,275
2024	161,791
2025	159,666
2026	162,291
2027	159,891
2028	162,366
2029	159,816
2030	162,141
2031	159,441
2032	162,012
2033	159,558
2034	161,896
2035	159,155
2036	161,246
2037	158,241
2038	160,102
2039	161,820
2040	158,394
2041	159,819
2042	161,094
2043	157,344
2044	158,333
2045	159,141
2046	159,792
2047	160,286
2048	160,625
2049	160,807
2050	160,834
Total	$4,781,736

THE FINANCING PLAN

The Project

The District will use the proceeds of the Bonds for the Campo Road Sewer replacement project (the "Project"). The Project will replace 1.41 miles of 10-inch-diameter sewer main with a new 15-inch-diameter sewer main pipeline along State Route 94 ("SR 94") in Rancho San Diego. The sewer pipeline is installed in easements that cross the properties of Rancho San Diego Village and the Rancho San Diego Town Centre, and in the SR 94 public right of way between Avocado Boulevard and Jamacha Road.

The Project is part of an ongoing series of projects to rehabilitate and upgrade the sewer system in the communities served by the District. The new pipeline will replace a 10-inch sewer main that can no longer provide adequate capacity for sewer flows in the area. The new 15-inch-diameter pipeline will reduce the potential for sewer overflows, and its new alignment will allow the District to construct and maintain the pipeline without disturbing sensitive environmental areas.

The total Project cost is approximately $10.5 million, of which $3 million will be funded with proceeds of the Bonds. The remaining cost of the Project has been funded with the Wastewater System accumulated net revenues. The Project is anticipated to be completed during November 2019.

Estimated Sources and Uses of Funds

Under the provisions of the Indenture, the Trustee will receive the proceeds from the sale of the Bonds and will apply them as follows:

Sources:	
Principal Amount of Bonds	$3,120,000.00
Net Original Issue Discount	(13,679.90)
Available Sources	$3,106,320.10
Uses:	
Project Fund	$3,000,000.00
Underwriter's Discount	21,746.40
Costs of Issuance Fund [1]	84,573.70
Total Uses	$3,106,320.10

[1] Expenses include fees of Bond Counsel, the Municipal Advisor, Disclosure Counsel, the Trustee, costs of printing the Official Statement, and other costs of delivery of the Bonds.

[Remainder of Page Intentionally Left Blank]

SOURCES OF PAYMENT FOR THE BONDS

Revenues; Pledge of Revenues

Pledge of Revenues and Other Amounts. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Revenues and all amounts held in any fund or account established under the Indenture are pledged to secure the payment of the principal of and interest and premium (if any) on the Bonds and in accordance with their terms and the provisions of the Indenture. This pledge constitutes a lien on and security interest in the Revenues and such amounts held under the Indenture, and will attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

"Revenues" means:

(a) all amounts received by the Authority or the Trustee pursuant or with respect to the Installment Sale Agreement, including, without limiting the generality of the foregoing, all of the Installment Payments (including both timely and delinquent payments, any late charges, and whether paid from any source, but excluding any Additional Payments), prepayments, insurance proceeds, condemnation proceeds, and

(b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture.

Assignment to Trustee. Under the Indenture, the Authority will irrevocably transfer, assign and set over to the Trustee, without recourse to the Authority, all of its rights in the Installment Sale Agreement (excepting only the Authority's rights to Additional Payments, release and indemnification by the District, and the payment of attorneys' fees and expenses under the Installment Sale Agreement), including but not limited to all of the Authority's rights to receive and collect all of the Installment Payments. The Trustee is entitled to collect and receive all of the Installment Payments, and any Installment Payments collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will immediately be paid by the Authority to the Trustee. The Trustee is also entitled to and must, subject to the provisions of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the District under the Installment Sale Agreement.

Installment Payments

The Installment Payments are payable from and secured by Net Revenues all as set forth in the Installment Sale Agreement and in the manner described herein. The Installment Payments are calculated to be sufficient to pay, when due, the scheduled payment of principal and interest on by the Bonds.

The District's obligation to pay the Installment Payments is a limited obligation of the District payable solely from Net Revenues of the Wastewater System, and neither the full faith and credit nor the taxing power of the District, the State of California or any if its political subdivisions is pledged for the payment of the Installment Payments. The District is not obligated to pay the Installment Payments from revenues of the District's water system.

Net Revenues

Definitions. The following definitions are from the Installment Sale Agreement and the Indenture and capitalized terms used below have the meanings set forth in the Indenture. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

“Net Revenues” means, for any period, an amount equal to all of the Gross Revenues of the District received during such period minus the amount required to pay all Operation and Maintenance Costs of the District becoming payable during such period.

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Wastewater Operations (as defined below) or otherwise arising from the Wastewater Operations, including but not limited to:

(a) all amounts levied by the District as a fee for connecting to the Wastewater Operations, as such fee is established from time to time under the applicable laws of the State of California;

(b) all income, rents, rates, fees, capital improvement fees, charges and other moneys derived from the services and facilities furnished or supplied through the facilities of the Wastewater Operations;

(c) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or under applicable law to the Wastewater Operations;

(d) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Wastewater Operations as permitted hereunder; and

(e) amounts transferred into the Wastewater Revenue Fund from a Rate Stabilization Fund, if any.

The term “Gross Revenues” does not include (i) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District, (ii) the proceeds of any ad valorem property taxes levied to pay any general obligation bond indebtedness of the District with respect to the Wastewater Operations, (iii) special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the District, and (iv) amounts transferred from the Wastewater Revenue Fund into the Rate Stabilization Fund during a fiscal year, but only to the extent that any amounts transferred from the Wastewater Revenue Fund into the Rate Stabilization Fund were included in Gross Revenues for that fiscal year. Gross Revenues do not include revenues from the District’s water system.

“Wastewater Operations” means the wastewater system of the District, including but not limited to all facilities, properties and improvements at any time owned or operated by the District for the collection and conveyance of wastewater from residents served thereby, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the District.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Wastewater Operations, including but not limited to:

(a) costs of utilities, including the costs of electricity and other forms of energy supplied to the Wastewater Operations;

(b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater Operations in good repair and working order; and

(c) the reasonable administrative costs of the District attributable to the operation and maintenance of the Wastewater Operations, including insurance and other costs described in the Installment Sale Agreement.

"Operation and Maintenance Costs" do not include:

(i) debt service payable on obligations incurred by the District with respect to the Wastewater Operations, including but not limited to the Installment Payments and any Parity Obligations;

(ii) depreciation, replacement and obsolescence charges or reserves therefor;

(iii) capital expenditures (other than as set forth in paragraph (b) above), including amounts charged by the Metro System for the Pure Water capital costs (see "THE WASTEWATER SYSTEM - San Diego Metropolitan Sewerage System - Point Loma Wastewater Treatment Plant and the Pure Water Project"); and

(iv) amortization of intangibles or other bookkeeping entries of a similar nature.

Application of District Revenues

Under the Installment Sale Agreement, the District will irrevocably pledge, charge and assign all the Net Revenues of the District and all moneys on deposit in any of the funds and accounts established and held by the Trustee under the Indenture to the punctual payment of the Installment Payments. This pledge, charge and assignment constitutes a lien on the Net Revenues and such other moneys for the payment of the Installment Payments in accordance with the terms of the Installment Sale Agreement, on parity with the pledge and lien that secures any "Parity Obligations" (as defined under the heading entitled "Parity Obligations" below).

Under the Installment Sale Agreement, the District is required to deposit all of the Gross Revenues in the Wastewater Revenue Fund (which has been established and is held and maintained by the District) immediately upon receipt.

The District will apply amounts in the Wastewater Revenue Fund in accordance with the Installment Sale Agreement and any Parity Obligations Documents (for all purposes in this Official Statement, as such are defined in the Indenture), and will apply amounts on deposit in the Wastewater Revenue Fund to pay when due the following amounts in the following order of priority:

(i) all Operation and Maintenance Costs;

(ii) the Installment Payments and all payments of principal of and interest on Parity Obligations;

(iii) any other payments required to comply with the provisions of the Installment Sale Agreement and any Parity Obligations Documents; and

(iv) any other purposes authorized under the Installment Sale Agreement.

No Preference or Priority. Under the Installment Sale Agreement, payment of the Installment Payments and the principal of and interest on Parity Obligations will be made without preference or priority among the Installment Payments and such Parity Obligations. If the amount of Net Revenues on deposit in the Wastewater Revenue Fund is any time insufficient to enable the District to pay when due the Installment Payments and the principal of and interest on Parity Obligations, such payments will be made on a pro rata basis.

Other Uses of Gross Revenues Permitted. Under the Installment Sale Agreement the District will manage, conserve and apply the Gross Revenues on deposit in the Wastewater Revenue Fund in such a manner that all deposits required to be made as described above will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing, the District may use and apply moneys in the Wastewater Revenue Fund for (i) the payment of any subordinate obligations or any unsecured obligations, (ii) the acquisition and construction of improvements to the Wastewater Operations, (iii) the prepayment of any other obligations of the District relating to the Wastewater Operations, or (iv) any other lawful purposes of the District.

Events of Default; Remedies on Default. For a description of events of default and remedies on default contained in the Installment Sale Agreement, see "Events of Default and Acceleration of Maturities" below and "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Events of Default" and "- Remedies on Default."

Allocation of Revenues by Trustee

Transfers from the Bond Fund. Under the Indenture, on or before each Interest Payment Date, the Trustee will transfer from the Bond Fund and deposit into the following respective accounts the following amounts in the following order of priority:

(a) Deposit to Interest Account. The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.

(b) Deposit to Principal Account. The Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on each September 1, including the aggregate principal amount of the Term Bonds (if any) that are subject to mandatory sinking fund redemption on that September 1.

Application of Interest Account. All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it comes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Application of Principal Account. All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds on their respective maturity dates, and the principal amount of the Term Bonds (if any) that are subject to mandatory sinking fund redemption on such September 1.

No Reserve Fund for the Bonds

There is no reserve fund established for the Bonds.

Events of Default and Acceleration of Maturities

The Installment Payments are not secured by, and the Owners of Bonds have no security interest in or mortgage on the property of the Wastewater System, or of the District. Default by the District will not result in loss of any property to the District. Should the District default, the Trustee may declare the entire principal amount of the Installment Payments and the accrued interest thereon, to be due and payable immediately, whereupon the same shall become due and payable, and take whatever action at law or in equity may appear necessary or desirable to enforce performance and observance of any obligation, agreement or covenant of the District under the Installment Sale Agreement. A default under the Installment Sale Agreement is also an Event of Default under the Indenture which may result in an acceleration of Bonds. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Events of Default" and "- Remedies on Default" and "RISK FACTORS - Limitations on Remedies Available to Bond Owners."

Rate Covenant

Covenant Regarding Net Revenues. Under the Installment Sale Agreement, the District is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater Operations during each Fiscal Year that are sufficient, after making allowances for contingencies and errors in estimates, to yield Net Revenues that are at least equal to 115% of the amount described in the clauses (ii) and (iii) under "- Covenant Regarding Gross Revenues" below for such Fiscal Year.

Covenant Regarding Gross Revenues. Under the Installment Sale Agreement, the District is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater Operations during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

(i) All Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year.

(ii) All Installment Payments and all payments of principal of and interest on any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Installment Payments or the principal of and interest on such Parity Obligations are payable from the proceeds of the Bonds or such Parity Obligations, as applicable, or from any source of legally available funds of the District (other than the Gross Revenues of the Wastewater Operations) that have been deposited with the Trustee for such purpose before the beginning of that Fiscal Year.

(iii) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year, except to the extent other sources of funds are reserved or encumbered therefore.

Rate Stabilization Fund

The District has the right at any time to establish a fund to be held by it and administered in accordance with the Indenture, to be known as the "Rate Stabilization Fund," for the purpose of stabilizing the rates and charges imposed by the District. From time to time the District may deposit amounts in the Rate Stabilization Fund from any source of legally available funds, including but not limited to Net Revenues that are released from the pledge and lien that secures the Bonds and any Parity Obligations, as the District may determine.

The District may, but is not required to, withdraw from any amounts on deposit in a Rate Stabilization Fund and deposit such amounts in the Wastewater Revenue Fund in any Fiscal Year for the purpose of paying Annual Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from a Rate Stabilization Fund to the Wastewater Revenue Fund will constitute Gross Revenues for such Fiscal Year (except as otherwise provided in the Indenture), and will be applied for the purposes of the Wastewater Revenue Fund. Amounts on deposit in a Rate Stabilization Fund will not be pledged to or otherwise secure the Bonds or any Parity Debt. All interest or other earnings on deposits in a Rate Stabilization Fund will be withdrawn therefrom at least annually and accounted for as Gross Revenues in the Wastewater Revenue Fund. The District has the right at any time to withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any lawful purposes of the District. The District does not currently maintain any funds in a Rate Stabilization Fund.

Parity Obligations

Under the Installment Sale Agreement, the District may not issue or incur any additional bonds or other obligations during the Term of the Installment Sale Agreement having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments.

Under the Installment Sale Agreement, the District may issue, enter into or incur Parity Obligations, in accordance with the conditions described below, or obligations that are either unsecured or which are secured by an interest in the Net Revenues that is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Installment Sale Agreement.

Conditions for Issuance of Parity Obligations. Under the Installment Sale Agreement, except for obligations incurred to prepay or discharge the Installment Payments or any Parity Obligations, the District may not issue or incur any Parity Obligations during the Term of the Installment Sale Agreement unless all the following conditions are satisfied:

(a) No Event of Default has occurred and is continuing.

(b) The amount of Net Revenues, excluding connection fees and transfers from the Rate Stabilization Fund, as shown by the books of the District for the most recent completed Fiscal Year for which audited financial statements of the District are available or for any more recent consecutive 12-month period selected by the District, or shown in the audited financial statements of the District, plus at the option of the District any Additional Revenues, are at least equal to 115% of the amount of Maximum Annual Debt Service coming due and payable in the current or any future Bond Year with respect to the Bonds and all Parity Debt then outstanding (including the Parity Debt then proposed to be issued).

If the Parity Obligations are being issued solely to refund outstanding Parity Obligations, and the resulting Annual Debt Service for each Bond Year is less than the Annual Debt Service for each Bond Year prior to the issuance of the refunding Parity Obligations, the District need not comply with the provisions described in paragraphs (a) and (b) above.

The Parity Obligations may be, but are not required to be, in the form of Supplemental Agreements, and may, but are not required to, secure the payment of debt service on Bonds.

"Parity Obligations" means (i) any bonds, notes, leases, installment sale agreements or other obligations of the District payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the Installment Payments, entered into or issued under and in accordance with the Installment Sale Agreement, and (ii) any other Governmental Loan that is treated as a Parity Obligation under the Installment Sale Agreement.

"Additional Revenues" means (i) an allowance for Net Revenues from any additions or improvements to or extensions of the Wastewater Operations to be made with the proceeds of such Parity Obligations and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of the latest Fiscal Year or for any more recent consecutive 12-month period selected by the District, were not in service, all in an amount equal to the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, or (ii) an allowance for Net Revenues arising from any increase in the charges made for service from the Wastewater Operations which has been adopted prior to the incurring of such Parity Obligations but which, during all or any part of the latest Fiscal Year or for any more recent consecutive 12-month period selected by the District, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period.

Conditions for Entering Into Governmental Loans.

(a) The District may borrow money from a Governmental Agency and incur a Governmental Loan to finance improvements to the Wastewater Operations. A Governmental Loan may be treated as a Parity Obligation for purposes of the Installment Sale Agreement, so long as the District complies with subsections (a) and (b) under the conditions for issuance of Parity Obligations described above before incurring the Governmental Loan.

(b) The District may not make a payment on any Governmental Loan (except as expressly described in subsection (c) below) to the extent it would have the effect of causing the District to fail to make a timely payment on the Bonds.

(c) If Net Revenues are ever insufficient to pay the full amount of Installment Payments and other Parity Obligations then Outstanding and such Governmental Loan, the District will make payments on the Installment Payments and other Parity Obligations and such Governmental Loan on a pro rata basis.

"Governmental Agency." The term "Governmental Loan" is defined in the Indenture as any loan made by a "Governmental Agency" (defined as the State, and the United States of America, acting through any of its agencies, to the extent that the State or such agency has loaned money to the District for the Wastewater Operations) to the District which is secured by a pledge of Net Revenues and incurred by the District to finance improvements to the Wastewater Operations pursuant to the Installment Sale Agreement.

Proceeds of Insurance, Sale or Condemnation Awards

Insurance. Under the Installment Sale Agreement, the District must at all times maintain with responsible insurers all such insurance on the Wastewater Operations as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Wastewater Operations. The District will apply any amounts collected from insurance against accident to or destruction of any portion of the Wastewater Operations to repair or rebuild such damaged or destroyed portion of the Wastewater Operations.

The District must also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Authority, the Trustee and the Owners of the Bonds.

Any policy of insurance required under this provision may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance.

Sale of the Wastewater Operations. Except as described below, the District will covenant in the Installment Sale Agreement that the Wastewater Operations will not be encumbered, sold, leased, pledged, have any charge placed thereon, or otherwise be disposed of, as a whole or substantially as a whole, if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the District to pay the Installment Payments or the principal of or interest on any Parity Obligations, or would materially adversely affect its ability to comply with the terms of the Installment Sale Agreement or any Parity Obligations Documents.

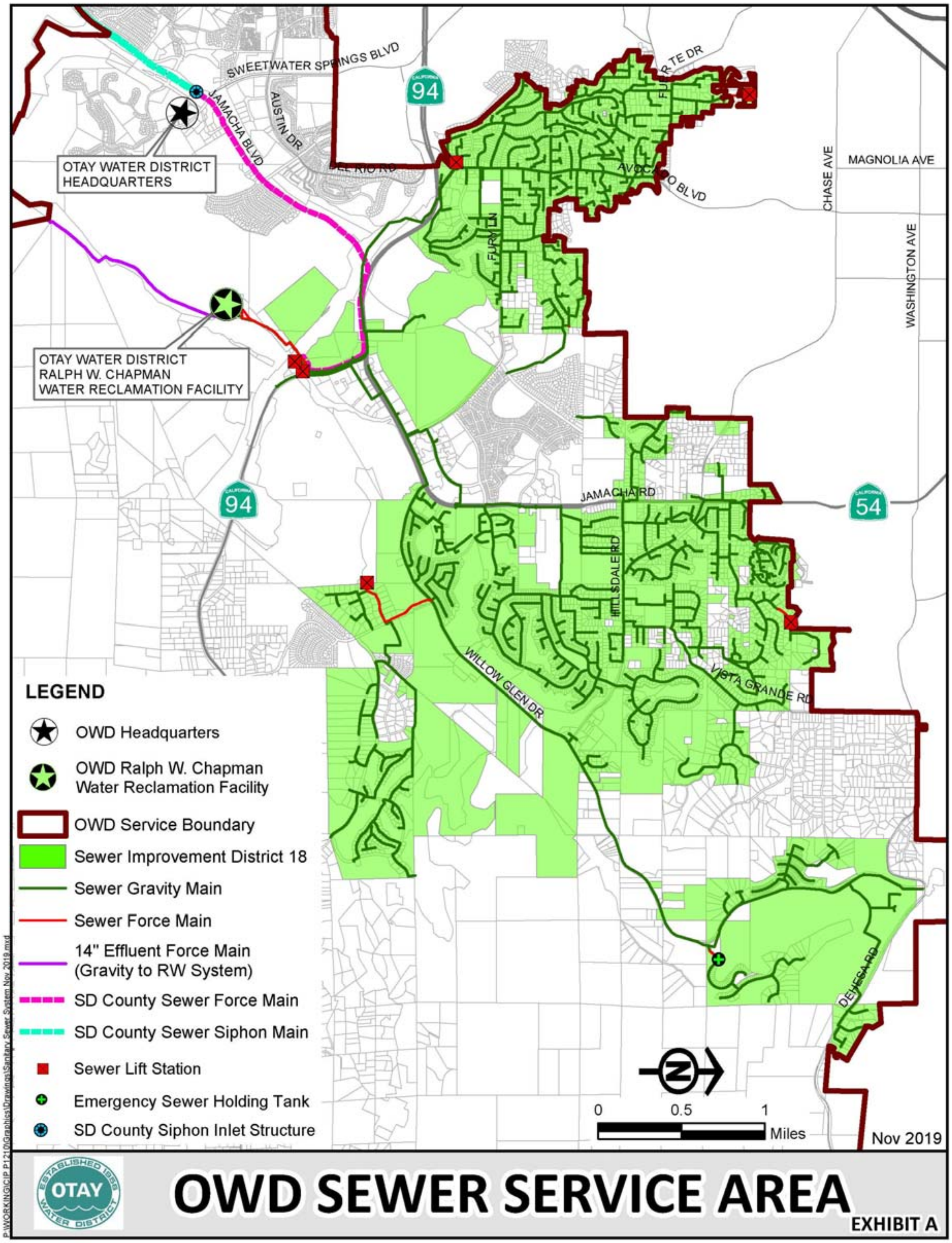
The District may not enter into any agreement that impairs the operation of the Wastewater Operations or any part of it necessary to secure adequate Net Revenues to pay the Installment Payments or any Parity Obligations, or which otherwise would impair the rights of the Bond Owners or the Trustee with respect to the Net Revenues.

If any substantial part of the Wastewater Operations is sold, the payment therefor must be used for the acquisition or construction of improvements to the Wastewater Operations or the redemption of all Outstanding Bonds and Parity Obligations pursuant to the Indenture.

Notwithstanding anything to the contrary provided in the Indenture, the District shall be permitted to convey its Wastewater Operations to San Diego County so long as the Bonds are redeemed or defeased in full pursuant to the Indenture on or prior to such conveyance. See "THE BONDS - Special Redemption in the Event of Conveyance of Wastewater Operations to San Diego County."

Condemnation Awards. Any amounts received as awards as a result of the taking of all or any part of the Wastewater Operations by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the District, must be used for the acquisition or construction of improvements to the Wastewater Operations.

[Remainder of Page Intentionally Left Blank]


SWEETWATER SPRINGS BLVD
94
JAMACHA BLVD
AUSTIN DR
OTAY WATER DISTRICT
HEADQUARTERS
MAGNOLIA AVE
CHASE AVE
WASHINGTON AVE
FURY LN
OTAY WATER DISTRICT
RALPH W. CHAPMAN
WATER RECLAMATION FACILITY
JAMACHA RD
54
HILLSDALE RD
WILLOW GLEN DR
VISTA GRANDE RD
DEHESA RD
LEGEND
OWD Headquarters
OWD Ralph W. Chapman
Water Reclamation Facility
OWD Service Boundary
Sewer Improvement District 18
Sewer Gravity Main
Sewer Force Main
14" Effluent Force Main
(Gravity to RW System)
SD County Sewer Force Main
SD County Sewer Siphon Main
Sewer Lift Station
Emergency Sewer Holding Tank
SD County Siphon Inlet Structure
0
0.5
1
Miles
Nov 2019
OTAY
OWD SEWER SERVICE AREA
EXHIBIT A

OTAY WATER DISTRICT

The District was formed in January 1956 pursuant to Section 71000 et seq., of the California Water Code, and joined the San Diego County Water Authority (which is a member of the Metropolitan Water District of Southern California) in September 1956 to acquire the right to purchase and distribute imported water throughout its service area. The San Diego County Water Authority is an agency responsible for the wholesale supply of water to its 24 public agency members in San Diego County.

The District's boundaries currently encompass an area of approximately 125 square miles and is generally located within the south central portion of San Diego County. The District serves a wide spectrum of communities, including southern El Cajon, La Mesa, Rancho San Diego, Jamul, Spring Valley, Bonita, eastern Chula Vista, and a small portion of the City of San Diego on Otay Mesa. The southern boundary of the District is the international border with Mexico.

The District is governed by a five-member Board of Directors (the "Board") elected from separate geographical areas within the District. The Board selects a Board President from among its members and appoints a General Manager and General Counsel to serve the District.

Revenues from the District's water system are not pledged to the payment of the Bonds or the Installment Payments.

THE WASTEWATER SYSTEM

The following information concerning the Wastewater System was obtained from District officials except where otherwise indicated. The audited financial statements of the District for the Fiscal Year ended June 30, 2019 with the Report by Independent Certified Public Accounts are attached hereto as "APPENDIX B" and should be read in their entirety.

Wastewater System Description

The District owns and operates the Wastewater System, a wastewater collection system providing public sewer service to approximately 4,729 customer accounts within a portion of the Jamacha drainage basin located in the northern section of the District. The County also provides wastewater service in a portion of the Jamacha Basin. Wastewater flows from each agency's customers are conveyed in joint collection and pumping systems.

The District's wastewater facilities consist of approximately 88 miles of sewer mains, four sewage lift stations, and one main sewage pump station. The District also owns and operates the Ralph W. Chapman Water Reclamation Facility ("Ralph W. Chapman Water Reclamation Facility") within the Jamacha Basin.

Currently, the District collects approximately 1.15 million gallons per day ("mgd") of wastewater. Of this amount, approximately 0.2 mgd of concentrated wastewater flow is conveyed to the City of San Diego Metropolitan Sewerage System (the "Metro System") for treatment at the Point Loma Wastewater Treatment Plant ("Point Loma Wastewater Treatment Plant") and released into the ocean via an outfall. The remaining 0.95 mgd is processed as recycled water at the Ralph W. Chapman Water Reclamation Facility. The costs of primary and secondary treatment of wastewater at the Ralph W. Chapman Water Reclamation Facility is an operating expense of the Wastewater System. The costs of tertiary treatment of the wastewater, which then allows it to be conveyed to the District's recycled water customers, is charged directly to the District's water system.

The District has entered into a joint use agreement with the County to pay its share of the County's operation and maintenance cost of the Rancho San Diego Outfall and the Spring Valley Outfall to transport sewage to the Metro System. The Metro System processes the District's sewage that is concentrated or beyond the capability of the Ralph R. Chapman Water Recycling Facility and all of the sludge created by the Ralph W.

Chapman Water Reclamation Facility. All payments by the District to the City of San Diego with respect to the Metro System are treated as Operation and Maintenance Costs of the Wastewater System.

San Diego Metropolitan Sewerage System

The Metro System is a regional sewage treatment and disposal system that serves the City of San Diego and various other public agencies, including cities situated within common drainage areas. The Metro System treats and disposes of the wastewater generated by the City of San Diego and certain amounts from 12 other cities and districts. The City of San Diego, as operator of the Metro System, is the holder of two National Pollutant Discharge Elimination System ("NPDES") permits, one for the discharge of sewage at the Point Loma Wastewater Treatment Plant ("Point Loma Discharge Permit"), and the other for the discharge of sewage at the South Bay Water Reclamation Plant.

The Metropolitan Wastewater Joint Powers Authority ("Metro JPA") is a coalition of municipalities and special districts in the southern and central portions of San Diego County that share in the use of the Metro System facilities. The District is one of 12 "Participating Agencies" in the Metro JPA The other Metro JPA member agencies are the cities of Chula Vista, Coronado, Del Mar, El Cajon, Imperial Beach, La Mesa, National City, Poway, the County of San Diego Sanitation District, the Lemon Grove Sanitation District, and Padre Dam Municipal Water District.

The District is a party to the Regional Wastewater Disposal Agreement dated of May 18, 1998 as amended, between the City of San Diego and the Participating Agencies including the District (the "Regional Wastewater Disposal Agreement"). The Regional Wastewater Disposal Agreement is proposed to be amended and restated by an Amended and Restated Regional Wastewater Disposal Agreement (the "Amended and Restated Regional Wastewater Disposal Agreement") that is currently under consideration and has been executed by all but 2 Participating Agencies.

Regional Wastewater Disposal Agreement. Under the terms of the Regional Wastewater Disposal Agreement, the District shares in the cost of the Metro System. It is the District's practice to pass through any increase in treatment costs to its customers (see "THE WASTEWATER SYSTEM - Sewer Charges").

Pursuant to the Regional Wastewater Disposal Agreement, the Participating Agencies are required to pay their respective share of planning, design and construction of the Metro System facilities and costs relating to the operation and maintenance of the Metro System by the City of San Diego. The amount to be paid by the Participating Agencies is calculated based on a Sewer System Charge and, if additional capacity is needed, a New Contract Capacity Charge. The current Regional Wastewater Disposal Agreement expires on December 31, 2050.

The "Sewer System Charge" is a charge that is calculated annually, billed quarterly and based on flow and strength coming into the Metro System. The "New Contract Capacity Charge" is an amount to be paid by any Participating Agency for the right to discharge any new or additional capacity into the Metro System beyond its existing allotted capacity.

The Amended and Restated Regional Wastewater Disposal Agreement, as proposed, terminates on December 31, 2065, subject to extension by agreement of the parties; the parties agree in the Amended and Restated Regional Wastewater Disposal Agreement to begin discussing an extension no later than December 31, 2055. The Participating Agencies' right to obtain wastewater treatment services from the Metro System will survive termination of the Amended and Restated Regional Wastewater Disposal Agreement; in that case, the Participating Agencies are obligated to pay their proportional share of costs based on their respective flow and strength. However, the City of San Diego may abandon the Metro System on December 31, 2065 with 10 years' prior notice to the Participating Agencies.

For information about regulatory requirements applicable to the Metro System and the Metro System capital improvement program, the District refers potential investors to an Official Statement prepared by the Public

Facilities Financing Authority of the City of San Diego in connection with the issuance of Senior Sewer Revenue Refunding Bonds, Series 2016A relating to the Metro System dated March 2, 2016 (the "Metro Official Statement"). Although the District believes the City of San Diego is the best source of information about the Metro System, and, therefore, encourages potential investors to review the Metro Official Statement, the District can provide no assurances as to the accuracy, completeness or timeliness of the Metro Official Statement. The Metro Official Statement and its continuing disclosure reports are available on EMMA.

The City of San Diego is required to develop and implement an industrial pretreatment program pursuant to its NPDES permits. Among other things, this obligates the District to adopt and diligently enforce an ordinance that establishes an industrial pretreatment program that incorporates discharge limits that are at least as stringent as those established by the City of San Diego and any categorical pretreatment standards promulgated by the Environmental Protection Agency ("EPA").

Point Loma Wastewater Treatment Plant and the Pure Water Project. Opened in 1963, the Point Loma Wastewater Treatment Plant treats approximately 175 million gallons of wastewater per day (it is rated for 240 million gallons per day). In November 1995, the City of San Diego received a modified permit (also called a "waiver") from Secondary Treatment requirements of the Clean Water Act. This modified permit was renewed in September 2002, in June 2010 and October 2017. The permit is required by the EPA to be renewed every 5 years and expires September 30, 2022.

The recent renewal process included the "Pure Water Project," a water recycling program that would divert millions of gallons of wastewater per day to a water purification facility, providing 83 million gallons of water every day, with an initial facility producing 30 million gallons per day anticipated to be completed first and the second phase to be completed by 2035. The Pure Project would use proven water purification technology to clean recycled water to produce safe, high-quality drinking water. While completion of the Pure Water Project avoids costly upgrades to the Point Loma Wastewater Treatment Plant, cost estimates for the Pure Water Project range from $1.8 billion to $3 billion (in 2016 dollars), of which approximately $1.8 billion will be a cost borne by the Metro System with the balance of $1.2 billion paid for from the City of San Diego's Water Reserve Fund.

Under the existing Regional Wastewater Disposal Agreement, the Participating Agencies' share of the Pure Water capital costs is based on flow and strength coming into the Metro System. The capital costs are not limited. Under the proposed Amended and Restated Regional Wastewater Disposal Agreement, the Participating Agencies' share of the Pure Water capital costs would be based on a fixed percentage of capacity ownership. The capital costs that are the responsibility of the Participating Agencies are limited to $1.8 billion under the proposed Amended and Restated Regional Wastewater Disposal Agreement. Any costs in excess of $1.8 billion would be borne by the City of San Diego. The District's financial liability associated with the proposed improvements under the Amended and Restated Regional Wastewater Disposal Agreement is approximately 0.5% of the total cost, or $9 million. This percentage is higher than the District's existing share of capital charges based the current formula for flow and strength, but it does provide a limit on total capital costs.

The District cannot provide any assurance if, or when, the Amended and Restated Regional Wastewater Disposal Agreement will be executed by all the Participating Agencies, what the ultimate cost of the Pure Water Project will be and when and if it will be completed, or if additional capital improvements to the Point Loma Wastewater Treatment Plant will be required in the interim and charged to the Participating Agencies, including the District.

Wastewater System Regulatory Issues

Regulatory requirements applicable to the Wastewater System are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both Federal and State regulations are administered through the Regional Water Board. The District is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer service.

The waste discharge requirements applicable to the Wastewater System are a product of (i) the waste discharge requirements relating to the Ralph W. Chapman Water Reclamation Facility, and (ii) the waste discharge requirements applicable to the Metro System (see "San Diego Metropolitan Sewerage System" above).

The District's recycled water operations are subject to regulation under Section 402 of the federal Clean Water Act, implementing regulations adopted by the EPA, the California Water Code and regulations promulgated by the California Department of Health Services. Specifically, the District must comply with requirements relating to discharge from the Ralph W. Chapman Water Reclamation Facility established by the Regional Water Board, San Diego Region, most recently by Order No. R9-2007-0038 dated May 7, 2007.

Customer Base

The customer base of the Wastewater System consists primarily of residential properties. The Wastewater System is primarily built out and no significant new connections are anticipated.

TABLE NO. 1
CURRENT AND HISTORICAL SERVICE CONNECTIONS
Fiscal Years 2009-10 through 2018-19

Fiscal Year Ended June 30	Number of Connections
2010	4,646
2011	4,655
2012	4,655
2013	4,655
2014	4,657
2015	4,679
2016	4,677
2017	4,683
2018	4,714
2019	4,729

Source: Otay Water District.

[Remainder of Page Intentionally Left Blank]

Table No. 2 shows the 10 largest customers of the Wastewater System for Fiscal Year 2018-19.

TABLE NO. 2
TEN LARGEST CUSTOMERS BY REVENUES
Year ended June 30, 2019

Customer	Usage in CCF [(1)]	% of Sewer System Consumption	Wastewater Revenues	% of Total Wastewater Revenues
Country Hills Apartments	34,611	4.66%	$ 152,539	5.24%
Cuyamaca College	25,865	3.49%	89,825	3.08%
HCA Woodbridge LLC	13,523	1.82%	64,128	2.20%
Avocado Village HOA	13,635	1.84%	36,373	1.25%
Dual Diagnosis Treatment Center	4,279	0.58%	21,234	0.73%
Sycuan Resort	5,110	0.69%	19,559	0.67%
Grossmont School District	5,296	0.71%	18,145	0.62%
Burton Schenker	3,108	0.42%	13,384	0.46%
Smart & Final	1,456	0.20%	10,837	0.37%
Western Golf Properties	3,478	0.47%	9,954	0.34%
Total top 10	110,362	14.87%	435,979	14.96%
Other sewer customers	631,667	85.13%	2,477,808	85.04%
Total sewer revenues	742,029	100.00%	$2,913,787	100.00%

(1) Hundred cubic feet. Approximately based on 2nd half winter average used in the Fiscal Year 2018-19 Budget.

Source: Otay Water District.

Sewer Charges

The District held a public hearing on October 3, 2018 and approved a schedule of rates to be effective January 1, 2019 and a method for implementing rates in subsequent years through 2023, which included authorization to raise rates by up to 10 percent per year during the five year period for all costs related to labor, benefits, materials, maintenance, administrative expenses and other operational costs of providing sewer service. This includes amounts required to meet bond covenants and to maintain adequate reserves. Authorization was also approved to pass through all rates, fees and charges for power and from the District's treatment and disposal providers including, but not limited to San Diego Gas and Electric, the County of San Diego and the City of San Diego during the five year period.

As part of its annual budget process in May, the District determines the rates to be effective for the succeeding January 1 pursuant to this methodology.

Residential and Multi-Residential customers are billed based on their winter average consumption of water from the previous year. The "Winter Average" is defined as units of water billed from January through April of the previous year divided by four. This average is then reduced by 15% as an acknowledgement that not all water purchased goes through the sewer system.

Commercial customers are billed based on the customer's average annual water consumption, meter size and strength factor. The average is also reduced by 15%.

TABLE NO. 3
SEWER VARIABLE AND FIXED CHARGES
As of January 1, 2019 and January 1, 2020

Usage Fee

Residential Per Unit:

2019	$2.67
2020	2.93

Non-Residential Per Unit:

Category	2019	2020
Low strength	$2.67	$2.93
Medium strength	3.31	3.64
High strength	4.56	5.01

Fixed Rates

Meter Size	2019 Residential	2019 Non-Residential	2020 Residential	2020 Non-Residential
3/4"	$14.91	$ 14.91	$16.38	$ 16.38
1"	14.91	37.27	16.38	40.94
1 1/2"	N/A	74.55	N/A	81.88
2"	N/A	119.27	N/A	131.00
3"	N/A	223.64	N/A	245.64
4"	N/A	372.73	N/A	409.40
6"	N/A	745.45	N/A	818.79
8"	N/A	1,192.73	N/A	1,310.08
10"	N/A	1,714.54	N/A	1,883.23

Source: Otay Water District.

As described above, residential charges are billed based on the prior Winter Average water use. In 2018, the Winter Average increased to 12.6 units per month from 9.5 units per month in the prior year. Due to this increased water usage there was a 7.0% sewer rate decrease, which was effective January 1, 2019. The adopted rate increase effective January 1, 2020 is 8.9%, in part because the Winter Average in 2019 was 8.6 units per month, lower than the prior year, and in part due to increased expenses. The historical average monthly Winter Average is 10.2 units.

The Board of Directors is expected to continue to take action each year through 2023 to set rates in accordance with the October 3, 2018 rate action. However, there can be no assurance that rates will be increased as contemplated herein. All rate increases are subject to the procedural and substantive provisions of Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS - Proposition 218" herein.

Based on its internal rate model updated in June 2019 and the need to fund the CIP, the District anticipates that it will need to increase its rates by approximately 7.1% in each of the next four years beginning

January 1, 2021. This reflects a projected monthly Winter Average in 2020 of 9.8 units and a projected monthly Winter Average thereafter of 10.2 units.

The District is conducting a cost of service study (the "Study"). One of the goals of the Study is modifying the Winter Average component of the sewer rate calculation to include 3 prior years' water usage instead of a single year to take into account an average usage between high and low rain years. The District expects to implement the new rate calculation in January 2021, however, there can be no assurance that rates will be modified as contemplated.

As previously noted, the District has projected that future rate increases will be necessary to implement the current six-year CIP. Additionally, the rates, charges and fees may be increased each year to pass-through additional actual cost increases imposed by the City of San Diego and the County of San Diego if such increases are greater than already factored in to the District's rates.

[Remainder of Page Intentionally Left Blank]

The residential customer Winter Average water usage per month of 8.6 units in 2019 was used as the basis for the setting the January 1, 2020 rates. One unit of water is equal to 100 cubic feet of water (one cubic foot of water equals 7.48 gallons). Table No. 4 compares average monthly sewer rates charged by the District with surrounding cities and other water agencies in San Diego County.

TABLE NO. 4
MONTHLY COMPARISON OF
AVERAGE RESIDENTIAL SEWER RATES
Based on Rates to be Effective as of January 1, 2020

City/Water Agency	Average Rates [1]
Leucadia	$ 28.64
Carlsbad [2]	28.92
Otay Water District	37.80
San Diego County	38.58
National City	38.68
Vallecitos	40.47
City of San Diego [2]	48.13
Chula Vista	48.20
Corondao	48.75
Escondido	49.61
La Mesa	50.88
Lemon Grove	51.59
Poway[2]	51.90
Imperial Beach	52.74
El Cajon	52.84
Buena	55.25
Vista	56.17
Solana Beach	56.86
Valley Center – MG [2]	58.71
Ramona	67.12
Padre Dam	69.92
Oceanside	69.96
Rainbow	71.05
Fallbrook	71.09
Olivenhain	71.76
Encinitas	72.91
Rancho Santa Fe	79.17
Del Mar	109.49

(1) Based on 8.6 units of water used and ¾” residential meter size.

(2) At the time of the survey September 2019, the member agency’s Fiscal Year 2019-20 rate was unavailable. The estimated increase is based on the other agency’s average Fiscal Year 2019-20 known rate increases.

Source: Otay Water District.

Billing Practices and Collection

The District bills for sewer service monthly. In general the sewer service charge is included on the customers' water bills however, there are some accounts that are only billed for sewer service. Monthly amounts are fixed for each customer and are re-calculated once each year, typically in January. For Fiscal Year 2018-19, the District's collection rate was 99.96%.

Operating Reserves

The District has a number of policies concerning reserves for operations and capital expenditures. The District's minimum operating reserve requirement for the Wastewater System is 90 days' of operating expenses. In recent years, the District built up reserves for capital expenditures and has recently completed a number of large capital projects, including the Project (see "THE FINANCING PLAN - The Project" herein).

No Outstanding Debt

The Installment Payments will be secured by Net Revenues of the Wastewater System. The District has no other outstanding obligations on the date of issuance of the Bonds.

Capital Improvement Program

The District reviews and updates its six-year Capital Improvement Program (the "CIP") annually.

The table below summarizes the current six-year CIP for the Wastewater updated as part of the 2019-20 budget.

Fiscal Year Ending June 30						
2020	**2021**	**2022**	**2023**	**2024**	**2025**	**Total**
$2,188,000	$792,000	$1,452,000	$1,008,000	$1,564,000	$1,388,000	$8,392,000

Source: Otay Water District.

The District has identified the timing and method of funding the capital improvements over the next six years. The above capital costs are designed to be funded with operational net cashflow, proceeds of the Bonds, reserves or a combination of these sources, and currently, the District expects to fund $3,000,000 of these improvements with future bond proceeds. The District expects that additional debt financing for the Wastewater System will occur during 2021. In order to implement the CIP, the District anticipates that it will need to increase its rates as described herein (see "Sewer Charges" herein). However, there is no guarantee that the District will implement such rate increases at the amount and at the time anticipated in its planning documents. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS - Proposition 218."

Pure Water Project. The District expects that it will capitalize any charges from the Metro System relating to the Pure Water Project (see "San Diego Metropolitan Sewerage System – Point Loma Wastewater Treatment Plant and the Pure Water Project"). The table below summarizes the expected capital charges for the Pure Water System included in the District's $8.4 million six-year Capital Improvement Program shown above.

Fiscal Year Ending June 30						
2020	**2021**	**2022**	**2023**	**2024**	**2025**	**Total**
$132,000	$182,000	$232,000	$283,000	$334,000	$383,000	$1,546,000

Employees and Benefits

The District has 138 full-time positions budgeted for Fiscal Year 2019-20. Five percent of total salaries and benefits are allocated to the Wastewater System. The OWD Employee Association represents 100 of these full-time employees as a collective bargaining unit. The District has not experienced any strikes and continues to have positive labor relations, which includes a negotiated multi-year Collective Bargaining Agreement. This agreement, the Memorandum of Understanding ("MOU"), with amendments, is in effect from July 1, 2019 to June 30, 2024.

The District provides retirement benefits and other post-employment benefits for its employees. See Notes (7) and (8) in the District's Fiscal Year 2018-19 audited financial statements, attached hereto as "APPENDIX B." During Fiscal Year 2018-19, the District prepaid $31.8 million of its unfunded actuarial pension liability, which is not yet reflected in the most current available actuarial valuation of the District's pension liability as of June 30, 2018. In addition, the District is expected to reach 100% funded status for its other post-employment benefits as of June 30, 2020.

District Reserves and Investment Policy

As of June 30, 2019, the District had approximately $73.8 million in cash and investments (combined Wastewater System and water operations). The Wastewater System's share of this amount at June 30, 2019 is $2.76 million. The District's water reserves are not pledged to and do not secure the District's obligation to pay the Installment Payments.

In accordance with State of California law, the District Board of Directors has approved an investment policy (the "Investment Policy") which complies with Sections 53601 through 53630 of the Government Code of the State of California providing legal authorization for the investment or deposit of funds of local agencies. All investments of the District conform to the restrictions of those laws. The District's investments by category and their respective market value and book value as of June 30, 2019 are set forth in Table No. 5 below. For additional information relating to the District's investments, see "APPENDIX B - DISTRICT AUDITED FINANCIAL STATEMENTS," Note 2.

TABLE NO. 5
SUMMARY OF INVESTMENTS
As of June 30, 2019

Investments	Market Value	Book Value	% of Portfolio
Federal Agency Issues – Callable	$31,670,612	$31,735,000	42.97%
Local Agency Investment Fund (LAIF)	41,855,272	41,783,747	56.57
San Diego County Pool	281,000	281,036	0.38
Money Market Funds	59,595	59,595	0.08
	$73,866,479	$73,859,378	100.00%

Source: Otay Water District.

The Investment Policy may be changed at any time at the discretion of the District (subject to the State law provisions relating to authorized investments) and as the California Government Code is amended. Any exception to the Investment Policy must, however, be formally approved by the Board of Directors of the District. There can be no assurance the State law or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such State law or the Investment Policy, or that the objectives of the District with respect to investments will not change.

Historical Operating Results

The following table summarizes the Statement of Net Position for the Wastewater System for the last five fiscal years ended June 30, 2019. The audited financial statements of the District for the Fiscal Year ended June 30, 2019 with the Report by Independent Certified Public Accounts are attached hereto as "APPENDIX B" and should be read in their entirety.

The District accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as the District ("GAAP"). In certain cases, GAAP requires or permits moneys collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses paid or incurred in one Fiscal Year to be recognized as expenses in a subsequent Fiscal Year. See "APPENDIX B." Except as otherwise expressly noted herein, all financial information derived from the District's audited financial statements reflects the application of GAAP.

The Governmental Accounting Standards Board ("GASB") has issued various statements relating to the reporting of pension and other post-retirement benefit liabilities and expense, and most recently, new accounting and financial reporting requirements for OPEB plans. The required reporting of net pension liability was incorporated into the District's financial statements for the Fiscal Year ending June 30, 2015 and the required reporting of net OPEB liability in accordance with GASB Statement No. 75 was incorporated into the District's financial statements for the Fiscal Year ending June 30, 2018.

Metro System Refunds. Prior to the start of a fiscal year, agencies (including the District) provide the Metro System with their estimate of wastewater flow and strength they expect to discharge to the Metro System. The City of San Diego also provides an estimate of their projected costs to be spent that fiscal year, including operational and maintenance work on the Metro System. This provides the agencies with an estimated budget to use for the fiscal year. After the fiscal year is over, the actual flows and strengths that were sent to the Metro System and the actual expenses incurred by the City of San Diego are "trued-up" to determine the final invoicing amount for that fiscal year. This generally occurs two years after the end of the operating year. In prior years, this has been reflected in "Miscellaneous Revenues" when the true-up results in a refund, and in "Operating Expenses" when the true-up results in additional payment.

[Remainder of Page Intentionally Left Blank]

TABLE NO. 6
OTAY WATER DISTRICT
SEGMENT INFORMATION FOR WASTEWATER SYSTEM
STATEMENT OF NET POSITION
For the Fiscal Years Ended June 30

	2015	2016	2017	2018	2019
ASSETS					
CURRENT ASSETS:					
Cash and Cash Equivalents	$ 2,008,510	$ 1,380,004	$ 2,912,754	$ 1,248,515	$ 516,356
Investments	8,487,168	9,536,464	5,353,358	3,830,588	2,062,618
Board Designated Investments	44,054	87,915	115,396	125,620	-
Accounts Receivable, Net	-	179,781	176,447	172,016	210,500
Prepaid Expenses and Other Current Assets	34,839	34,300	34,300	34,300	34,300
Total Current Assets	$10,574,571	$11,218,464	$ 8,592,255	$ 5,411,039	$ 2,823,774
NON-CURRENT ASSETS:					
Net OPEB Asset	$ -	$ 418,506	$ 467,099	$ -	$ -
Capital Assets:					
Land	28,200	28,200	332,136	332,136	332,136
Construction in Progress	1,754,365	2,168,017	4,722,179	4,977,615	9,269,253
Capital Assets, Net of Accumulated Depreciation	16,001,693	15,738,718	16,381,109	19,682,084	19,851,768
Total Capital Assets, Net of Depreciation	17,784,258	17,934,935	21,435,424	24,991,835	29,453,157
Total Non-current Assets	$17,784,258	$18,353,441	$21,902,523	$24,991,835	$29,453,157
TOTAL ASSETS	$28,358,829	$29,571,905	$30,494,778	$30,402,874	$32,276,931
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Actuarial Pension Costs	164,477	277,530	450,476	425,632	2,065,311
Deferred Actuarial OPEB Costs	-	-	-	103,494	103,904
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 164,477	$ 277,530	$ 450,476	$ 529,126	$ 2,169,215

Continued on next page.

TABLE NO. 6
OTAY WATER DISTRICT
SEGMENT INFORMATION FOR WASTEWATER SYSTEM
STATEMENT OF NET POSITION
For the Fiscal Years Ended June 30

Continued from previous page.

	2015	2016	2017	2018	2019
LIABILITIES					
CURRENT LIABILITIES:					
Accounts Payable	$ 228,017	$ 191,334	$ 82,906	$ 900,460	$ 179,188
Other Accrued Liabilities	179,155	210,558	255,709	439,426	643,495
Total Current Liabilities	$ 407,172	$ 401,892	$ 338,615	$ 1,339,886	$ 822,683
NON-CURRENT LIABILITIES:					
Long-term Debt:					
Net Pension Liability	1,781,274	1,828,127	2,068,124	2,285,634	2,221,070
Net OPEB Liability	-	-	-	221,393	151,308
Total Non-current Liabilities	$ 1,781,274	$ 1,828,127	$ 2,068,124	$ 2,507,027	$ 2,372,378
TOTAL LIABILITIES	$ 2,188,446	$ 2,230,019	$ 2,406,739	$ 3,846,913	$ 3,195,061
DEFERRED INFLOWS OF RESOURCES					
Deferred Actuarial Pension Costs	$ 228,525	$ 251,927	$ 163,823	$ 19,935	$ 31,888
Deferred Actuarial OPEB Costs	-	-	-	25,354	25,642
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 228,525	$ 251,927	$ 163,823	$ 45,289	$ 57,530
NET POSITION					
Net Investment in Capital Assets	$17,784,258	$17,934,935	$21,435,424	$24,991,835	$29,453,157
Unrestricted	8,322,077	9,432,554	6,939,268	2,047,963	1,740,398
TOTAL NET POSITION	$26,106,335	$27,367,489	$28,374,692	$27,039,798	$31,193,555

(1) For the Fiscal Year ended June 30, 2015, the District Implemented GASB 68 relating to reporting of pension and other retirement obligations.

(2) For the Fiscal Year ended June 30, 2018, the District Implemented GASB 75 relating to reporting of OPEB obligations.

Source: Otay Water District.

TABLE NO. 7
OTAY WATER DISTRICT
SEGMENT INFORMATION FOR WASTEWATER SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Years Ended June 30

	2015	2016	2017	2018	2019
OPERATING REVENUES					
Wastewater Revenue	$ 3,044,158	$ 3,175,300	$ 2,983,495	$ 2,865,520	$ 2,961,157
Connection and Other Fees	6,746	3,764	1,052	3,973	12,394
Total Operating Revenues	3,050,904	3,179,064	2,984,547	2,869,493	2,973,551
OPERATING EXPENSES					
Wastewater	1,824,259	2,021,513	1,921,745	2,501,240	2,784,579
Depreciation	1,050,506	1,017,180	1,062,249	1,004,012	833,920
Total Operating Expenses	2,874,765	3,038,693	2,983,994	3,505,252	3,618,499
Operating Income (Loss)	176,139	140,371	553	(635,759)	(644,948)
NON-OPERATING REVENUES (EXPENSES)					
Investment Earnings	73,700	94,168	50,070	67,388	132,587
Taxes and Assessments	437	3	16,316	789	-
Availability Charges	44,553	72,469	90,968	51,401	51,818
Gain (Loss) on Sale of Capital Assets	-	-	-	(181,859)	(28,225)
Miscellaneous Revenues (1)	-	856,306	783,963	-	392,624
Miscellaneous Expenses	(11,675)	-	(15,091)	(6,624)	(4,515)
Total Non-operating Revenues (Expenses)	107,015	1,022,946	926,226	(68,905)	544,289
Income (Loss) Before Capital Contributions	283,154	1,163,317	926,779	(704,664)	(100,659)
Capital Contributions	687,614	97,837	80,424	37,109	4,254,416
Change in Net Position	970,768	1,261,154	1,007,203	(667,555)	4,153,757
Total Net Position, Beginning, As Previously Reported	26,995,562	26,106,335	27,367,489	28,374,692	27,039,798
Prior Period Adjustment(2)	(1,859,995)	-	-	(667,339)	-
Total Net Position, Beginning, As Restated	25,135,567	26,106,335	27,367,489	27,707,353	27,039,798
Total Net Position, Ending	$26,106,335	$27,367,489	$28,374,692	$27,039,798	$31,193,555

(1) Miscellaneous Revenue may include refunds of overcharges from the City of San Diego Metro Operations from previous billing years. These refunds are the result of the City performing a "true-up" of actual costs shared by the Otay Water District which is completed 2 years after the billing year. See "Historical Operating Results - Metro System Refunds" above.

(2) The prior period adjustment in Fiscal Year 2014-15 relates to the implementation of GASB No. 68 and in Fiscal Year 2017-18 relates to the implementation of GASB No. 75, both concerning post-employment benefits.

Table No. 8 sets forth historical Net Revenues for the Fiscal Years 2014-15 through 2018-19, as such Net Revenues would have been calculated in accordance with the Installment Sale Agreement.

Such calculations, which are derived from definitions of Gross Revenues, Operation and Maintenance Costs, Net Revenues set forth in Appendix A, are intended to reflect the District's ability to comply with the rate covenant contained in the Installment Sale Agreement and described under the caption "SOURCES OF PAYMENT FOR THE BONDS" and for no other purpose. Such calculations may reflect non-recurring or extraordinary accounting transactions permitted under the Installment Sale Agreement and GAAP. The District makes no representations as to any such calculations, and such calculations should not be construed as a representation by the District as to past or future compliance with any bond covenants, the availability of particular revenues for the payment of Installment Payments or for any other purpose.

Operation and Maintenance costs shown in Table No. 8 are separated into three basic functions – charges from Metro System, charges from the County and operating costs of the Wastewater System facilities including the Ralph W. Chapman Water Reclamation Facility. See "Wastewater System Description" above.

TABLE NO. 8
SEGMENT INFORMATION FOR WASTEWATER SYSTEM
HISTORICAL NET REVENUES (in '000's)
For the Fiscal Year Ended June 30

	2015	2016	2017	2018	2019
Revenues:					
Wastewater Revenue	$3,044	$3,175	$2,983	$2,866	$2,961
Connection Fees	7	4	1	4	12
Availability	45	72	91	51	52
Capacity Fees/Annexation Fees	25	49	34	14	11
Betterment Fees	32	57	50	28	28
Metro System Refunds (1)	-	856	784	-	393
Investment and Other Earnings (1)	74	94	50	67	104
Total Revenue	$3,227	$4,307	$3,993	$3,030	$3,561
Operation and Maintenance Costs:					
Metro System Sewer Charge (2)	$1,020	$ 813	$ 690	$ 821	$ 781
County Sewer Charge	189	218	181	313	277
Total Sewer Charge	1,209	1,031	871	1,134	1,058
Utilities	167	154	123	174	144
Payroll	326	615	701	815	1,151
Administrative	48	47	42	84	219
Materials and Maintenance	74	175	185	292	213
Total Operation and Maintenance Costs	$1,824	$2,022	$1,922	$2,499	$2,785
Net Revenues	$1,403	$2,285	$2,071	$ 531	$ 776

(1) Metro System refunds that pertain to City of San Diego "True-Up" cost calculations from previous years. See "Historical Operating Results – Metro System Refunds" above.

(2) Excluding capital charges for Pure Water Project which the District expects to capitalize.

Source: Otay Water District.

Projected Debt Service Coverage

The projections of Revenues and the corresponding Net Revenues shown in Table No. 9 are based on the assumptions shown below. The District believes the assumptions used for the projections are reasonable based on its own data and on projections from outside sources regarding expected growth in the District; however, some assumptions may not materialize and unanticipated events and circumstances may occur (see "RISK FACTORS"). To the extent that the assumptions are not actually realized the coverage levels shown in Table No. 9 will likely be reduced and, if substantial reductions in Net Revenues were to result, the District's ability to timely pay the Installment Payments, which, in turn, pay debt service on the Bonds, may be adversely affected.

(a) The Winter Average water usage for 2020 is projected to be 9.8 units and the Winter Average water usage for 2021 and thereafter is projected to be 10.2 units. See "Sewer Charges" above.

(b) Sewer rates are projected to increase 7.1% annually each January 1 based on the District's most recently updated projections. These projected rates reflect the projected Winter Average water usage as well as the District's estimate of potential rate increases that would be passed through to the District's customers as a result of increased costs from the Metro System.

(c) Availability and Other Fees are projected to remain stable over the next 5 years with availability charges of $52,000 derived from property tax assessments as a fixed charge per parcel representing the majority of these revenues.

(d) Investment and Other Earnings are projected to increase as the District's cash and investment position increases.

(e) No Metro System refunds pertaining to City of San Diego "True-Up" cost calculations from previous years are projected. See "Historical Operating Results - Metro System Refunds" above.

(f) Sewer Costs are projected to increase 5.0% annually as a result of increases in the Metro System operating costs charged to the District. County operating charges charged to the District are projected to decrease in 2021 as a result of the County completing a major maintenance project and remain level through 2024.

(g) Operating costs shown in Fiscal Year 2020 are based on current year budget estimates. Costs for subsequent fiscal years include the annual average inflationary factors shown below.

Utilities	3.5%
Material and Maintenance	4.0%
Administrative Costs	3.0%
Salaries	3.0%
Benefits	5.0%
Workers Compensation Insurance	5.0%

(h) The capital component of the Pure Water Project is not included in the calculation of Operating and Maintenance costs (see "Capital Improvement Program - Pure Water Project" above.

TABLE NO. 9
PROJECTED NET REVENUES (in '000's) AND DEBT SERVICE COVERAGE
For the Fiscal Year ended June 30 (1)

	2020	2021	2022	2023	2024
Revenues:					
Wastewater Revenue (1)	$2,918	$2,964	$3,288	$3,549	$3,799
Availability and Other Fees	81	81	81	81	81
Investment and Other Earnings (2)	56	58	81	101	99
Total Revenue	$3,055	$3,103	$3,450	$3,731	$3,979
Operation and Maintenance Costs:					
Metro System Sewer Charge (3)	$ 601	$ 631	$ 663	$ 696	$ 731
County Sewer Charge (4)	251	185	185	185	185
Total Sewer Charge	852	816	848	881	916
Utilities	154	162	169	175	182
Payroll	1,167	1,202	1,237	1,277	1,320
Administrative	282	290	299	308	317
Materials and Maintenance	340	353	368	382	398
Total Operation and Maintenance Costs	$2,795	$2,823	$2,921	$3,023	$3,133
Net Revenues	260	280	529	708	846
Installment Payments (5)	$ 50	$ 91	$ 155	$ 158	$ 162
Parity Obligations (6)	-	-	45	175	175
Total Debt Service	$ 50	$ 91	$ 200	$ 333	$ 337
Coverage Ratio		307%	265	213%	251%

(1) Rates change each January 1, in the middle of a fiscal year, so that revenues are based on the Winter Average from one year for the first 6 months and the Winter Average from the following year for the last six months of each fiscal year. See "Sewer Charges" above.

(2) Does not assume any Metro refunds that pertain to City of San Diego "True-Up" cost calculations from previous years. See "Historical Operating Results - Metro System Refunds" above.

(3) Excluding capital charges for Pure Water Project which the District expects to capitalize.

(4) The County charged the District for a major rehabilitation project on a pay-as-you-go basis, which the District expects to be completed during Fiscal Year 2020.

(5) Calculated on an accrual basis for each July 1 to June 30 period.

(6) The District anticipates issuing Parity Obligations in Fiscal Year 2021-22 to fund $3 million of additional capital improvements, see "Capital Improvement Program" above.

Source: Otay Water District.

The projected Revenues, Taxes and Operation and Maintenance Costs shown above are subject to several variables and assumptions as described on the previous pages. Actual results are likely to be different from these projections and the District provides no assurance that the projected Net Revenues or Coverage Ratios will be achieved (see "RISK FACTORS" herein).

CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIB Gann Limit

Article XIIIB of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIIIB generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIIIB includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The District is of the opinion that its charges with respect to Wastewater Service do not exceed the costs that it reasonably bears in providing Wastewater Service and are not subject to the limits of Article XIIIB.

Proposition 218

General. On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property related fee or charge").

On November 2, 2010, California voters approved Proposition 26, the so-called "Supermajority Vote to Pass New Taxes and Fees Act." Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIIIA and XIIIC of the State Constitution. The amendments to Article XIIIA limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26's amendments to Article XIIIC broadly define "tax," but specifically exclude, among other things:

- A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.

- A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.

- A charge imposed as a condition of property development.

- Assessments and property-related fees imposed in accordance with the provisions of Article XIIID.

Property-Related Fees and Charges. Under Article XIIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

Initiative Power. In addition, Article XIIIC states that "the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to Statewide statutory initiatives."

Judicial Interpretation of Articles XIIIC and XIIID. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General's opinion initially indicated that fees and charges levied for water and wastewater would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIIID under certain circumstances.

In *Richmond v. Shasta Community Services District* (2004) 32 Cal.4th 409, the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIIID to certain charges related to Wastewater Service. In Richmond, the Court held that capacity charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing Wastewater Service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (2005) 127 Cal.App.4th 914, the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218, and a municipality must comply with Article XIIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006, the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal.4th 205, addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that Wastewater Service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal. App. 4th 1493 (2015) (the "SJC Case") upholding tiered water rates under Proposition 218 provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion was specific to the facts of the case, including a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. District management believes that this case will not have any material impact on the District's ability to make the Installment Payments or to meet its rate covenant.

Conclusion. It is not possible to predict how the courts will further interpret Article XIIIC and Article XIIID in future judicial decisions and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals water rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Bonds.

The District believes that its rates with respect to the Wastewater Service comply with the requirements of Proposition 218 and expect that future fees and charges will comply with Proposition 218's procedural and substantive requirements to the extent applicable thereto. The requirements of, or a voter initiative pursuant to, Proposition 218 could impact the ability of the District to set or raise service charges.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIIC and Article XIIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for water, or to call into question previously adopted water rate increases.

Future Initiatives

Articles XIIIB, XIIIC and XIIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the revenues of the District.

RISK FACTORS

This section describes certain special considerations and risk factors affecting the payment of and security for the Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and the order does not necessarily reflect the relative importance of the various risks. Potential investors in the Bonds are advised to consider these special factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other considerations will not materialize in the future, and if additional considerations materialize to a sufficient degree, they could delay or prevent payment of principal of and interest on the Bonds.

Net Revenues; Rate Covenant

Net Revenues are dependent upon the demand for wastewater services, which can be affected by population factors, more stringent wastewater standards, wastewater regulations, water conservation, water shortages, problems with the District's wastewater collection and other factors. There can be no assurance that wastewater service demand will be consistent with the levels contemplated in this Official Statement. A decrease in demand could require an increase in rates or charges in order to comply with the rate covenant contained in the Installment Sale Agreement.

The District's ability to meet its rate covenant is dependent upon its capacity to increase rates to a level sufficient to meet debt service on the Bonds and other Parity Obligations.

Risks Related to Facilities and Operations

The operation of the District's facilities and physical condition of the District's facilities are subject to a number of risk factors that could adversely affect the reliability of sewer service or increase the operating expenses of the District. Prolonged damage to the District's facilities could interrupt the ability of the District to realize Revenues sufficient to pay principal of and interest on the Bonds, require substantial increases in rates or charges in order to comply with the rate covenant in the Installment Sale Agreement (which could drive down demand for wastewater and related services), or require the District to increase expenditures for repairs significantly enough to adversely impact the District's ability to pay the principal of or interest on the Bonds.

These factors could include, among others, the following:

Operation and Maintenance Expenses. There can be no assurance that operation and maintenance expenses of the District related to the wastewater system will be consistent with the levels contemplated in this Official Statement.

Seismic Hazards and Natural Disasters. The District is located in a seismically active region. From time to time, the service area of the District may be subject to other natural disasters, including without limitation wildfires, flooding and landslides, or man-made disasters that could interrupt operation of the wastewater system, or adversely affect economic activity in the District's service area.

There can be no assurance that the occurrence of any natural calamity would not cause substantial damage to the District's facilities, including exacerbated infiltration and/or inflow of ground and other waters into the wastewater system, or that the District would have insurance or other resources available to make repairs in order to generate sufficient Net Revenues to pay debt service on the Bonds when due. The casualty and liability insurance maintained by the District may not cover damages and losses to the District's facilities due to earthquake, fire or flood.

The Wastewater System and its facilities are generally located adjacent to an area designated by California Department of Forestry and Fire Protection as a Very High Fire Hazard Severity Zone ("FHSZ"). While

FHSZ zones do not predict when or where a wildfire will occur, they do identify areas where wildfire hazards could be more severe and therefore are of greater concern.

Climate Change. As noted, the sewer charges are based on water usage by customers, and therefore, factors affecting water usage will necessarily affect revenues of the Wastewater System.

The issue of climate change has become an important factor in water resources planning in the State, and it is being considered during planning for water supplies and systems. Many studies cite evidence that increasing concentrations of greenhouse gases have caused and will continue to cause a rise in temperatures around the world, which will result in a wide range of changes in climate patterns. Moreover, they cite evidence that a warming trend occurred during the latter part of the 20th century and will likely continue through the 21st century. These changes could have a direct effect on water resources in the State, and numerous studies on climate and water in the State have been conducted to determine the potential impacts. Based on these studies, global warming could result in the following types of water resources impacts in the State, including impacts on water supplies and systems:

- Sea level rise and an increase in saltwater intrusion into groundwater,
- Changes in the timing, intensity, and variability of precipitation, and an increased amount of precipitation falling as rain instead of as snow,
- Reductions in the average annual snowpack due to a rise in the snowline and a shallower snowpack in the low- and medium-elevation zones, and a shift in snowmelt runoff to earlier in the year,
- Long-term changes in watershed vegetation and increased incidence of wildfires that could affect water quality,
- Increased water temperatures with accompanying adverse effects on some fisheries,
- Increases in evaporation and concomitant increased irrigation need, and
- Changes in urban and agricultural water demand.

Other than the general trends listed above, there is no specific information on exactly how global warming will quantitatively affect water supplies with respect to the District or customer water conservation. However, there can be no assurance that climate change will not affect the District's water sources or customer demand.

Aging Facilities. While the District has an ongoing series of projects to rehabilitate and upgrade the Wastewater System some of these facilities are aging and still in need of repair or replacement. Long-lived facilities result in decreased reliability due to unplanned outages and place a greater maintenance burden on District Operations.

Private Sewer Laterals. Private sewer laterals are not owned or operated by the District; however, faulty private sewer laterals can increase inflow and infiltration into the District's facilities. Excessive inflow and infiltration into the facilities due to faulty sewer laterals may cause damage to the District's facilities.

Statutory and Regulatory Compliance. The operation of the District is subject to a variety of federal and State statutory and regulatory requirements. Any failure by the District to comply with applicable laws and regulations could result in significant fines and penalties. See "- Risk of Fines and Litigation" below. Further, compliance with these laws and regulations may result in significant increases in the capital and operating costs of the District.

Casualty Losses. The Installment Sale Agreement obligates the District to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the District's facilities in the event of damage or destruction to such portion of the District's facilities. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the District's facilities.

Risk of Fines and Litigation

There is no certainty that the District can eliminate all future sanitary sewer overflows that reach waters of the United States. Sanitary sewer overflows could result in administrative civil penalties or the request for civil penalties by third parties brought under the citizen suit provisions of the Clean Water Act. Any such actions could impose additional payment obligations on the District. Any fines or civil penalties would likely be classified by the District as Operation and Maintenance Costs and, therefore, payable prior to debt service on the Bonds.

Proposition 218

On November 5, 1996, California voters approved Proposition 218-Voter Approval for Local Government Taxes-Limitation on Fees, Assessments, and Charges-Initiative Constitutional Amendment. Proposition 218 added Articles XIIIC and XIIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. The ability of the District to comply with its covenants under the Installment Sale Agreement and generate Net Revenues sufficient to pay the Installment Payments may be adversely affected by actions and events outside of the control of the District or taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS - Proposition 218" for a discussion of specific issues and risks raised by Proposition 218. The District's current projections assume future rate increases which will be subject to the Proposition 218 notice process, will be needed during the time that the Bonds are Outstanding.

Limitations on Remedies Available to Bond Owners

Any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Installment Sale Agreement or the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bondholder remedies contained in the Installment Sale Agreement and the Indenture, the rights and obligations under the Bonds, the Installment Sale Agreement and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose.

Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Future Parity Obligations

As described in "SOURCES OF PAYMENT FOR THE BONDS - Parity Obligations" herein, the Installment Sale Agreement permits the District to issue Parity Obligations, under which its obligations would be payable on a parity with the payment of the Installment Payments.

The coverage tests described in "SOURCES OF PAYMENT FOR THE BONDS - Parity Obligations" involve, to some extent, projections of Net Revenues. If Parity Obligations are issued, the debt service coverage for the Bonds could be diluted below what it otherwise would be. Moreover, there is no assurance that the assumptions that form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Bonds and any future Parity Obligations.

Cybersecurity

As a recipient and provider of personal, private and sensitive information, the District faces multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computers and other sensitive digital networks and systems.

Despite security measures, information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Increasingly, government entities are being targeted by cyber-attacks seeking to obtain confidential data or disrupt critical services. A rapidly changing cyber risk landscape may introduce new vulnerabilities which hackers may exploit in attempts to effect breaches or service disruptions. Any such breach could compromise networks and the information stored there could be disrupted, accessed, publicly disclosed, lost or stolen. Any such disruption, access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, operations and the services provided which could ultimately adversely affect Net Revenues.

No assurances can be given that the security and operational control measures of the District will be successful in guarding against any and each cyber threat or breach. Although the District maintains insurance coverage for cyber security losses should a successful breach ever occur, the cost of any such disruption or remedying damage caused by future attacks could be substantial and in excess of such insurance coverage.

The District is also reliant on other entities and service providers in connection with the administration of the Bonds, including without limitation the County tax collector for the levy and collection of sewer charges, the Fiscal Agent, and the dissemination agent. No assurance can be given that the District, and these other entities will not be affected by cyber threats and attacks in a manner that may affect the Bond owners.

Bankruptcy

While an involuntary bankruptcy petition cannot be filed against the District or the Authority, each of the District and the Authority is authorized to file for bankruptcy under certain circumstances. Should the District or the Authority file for bankruptcy, there could be adverse effects on the holders of the Bonds.

To the extent that the Net Revenues are "special revenues" under the Bankruptcy Code and the Bonds are covered by the provisions of the Bankruptcy Code relating to pledges of special revenues, then Net Revenues collected after the date of the bankruptcy filing should secure the District's obligations under the Installment Sale Agreement. If any or all of the Net Revenues are determined not to be special revenues or if it is determined that the Bonds are not covered by the relevant provisions of the Bankruptcy Code, then any such amounts collected after the commencement of the bankruptcy case will likely not secure the District's obligations under the Installment Sale Agreement. The holders of the Bonds may not be able to assert a claim against any property of the District other than the Net Revenues, and if any or all of the Net Revenues no longer secure the Installment Sale Agreement, then there may be limited, if any, funds from which the holders of the Bonds are entitled to be paid.

The Bankruptcy Code provides that "special revenues" can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. It is not clear precisely which expenses would constitute necessary operating expenses and any definition in the transaction documents may not be applicable.

If the District or the Authority is in bankruptcy, the parties (including the Trustee and the holders of the Bonds) may be prohibited from taking any action to collect any amount from the bankrupt party or to enforce any obligation of the bankrupt party, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the Bonds from funds in the Trustee's possession. If the Authority is in bankruptcy, it may be able to require that all amounts due under the Installment Sale Agreement (including Net Revenues) be paid directly to it, notwithstanding the provisions of the transaction documents that require such payments be made directly to the Trustee. The rate covenant (see "SOURCES OF PAYMENT FOR THE BONDS - Rate Covenant") may not be enforceable in bankruptcy by the Trustee or the holders of the Bonds.

The District is permitted to commingle Net Revenues with its own funds for certain periods of time before turning over the Net Revenues to the Trustee. If the District goes into bankruptcy, the District may not be required to turn over to the Trustee any Net Revenues that are in its possession at the time of the bankruptcy filing and have been commingled with other moneys. If the District has possession of Net Revenues (whether collected before or after commencement of the bankruptcy) and if the District does not voluntarily turn over such Net Revenues to the Trustee, it is not entirely clear what procedures the Trustee and the holders of the Bonds would have to follow to attempt to obtain possession of such Net Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful.

If the District or the Authority is in bankruptcy it may be able to repudiate the Installment Sale Agreement. If the Installment Sale Agreement is repudiated, the District will no longer be obligated to make any payments under it.

If the District or the Authority is in bankruptcy it may be able, without the consent and over the objection of the Trustee and the holders of the Bonds, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Installment Sale Agreement, the Indenture, and the Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

There may be delays in payments on the Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the District or the Authority that could result in delays or reductions in payments on the Bonds, or result in losses to the holders of the Bonds. Regardless of any specific adverse determinations in a District or Authority bankruptcy proceeding, the fact of a District or Authority bankruptcy proceeding could have an adverse effect on the liquidity and value of the Bonds.

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Authority will covenant in the Indenture and the District will covenant in the Installment Sale Agreement to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Internal Revenue Code. The interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the Bonds, as a result of acts or omissions of the Authority or the District in violation of this or other covenants in the Indenture or the Installment Sale Agreement. Should such an event of taxability occur, the Bonds are not subject to prepayment or any increase in interest rates and will remain outstanding until maturity. See "-Limitations on Remedies Available to Bond Owners" and "TAX MATTERS" herein.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the Bonds might be adversely affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

Secondary Market Risk

There can be no assurance that there will be a secondary market for purchase or sale of the Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the District. Secondary market prices for the Bonds could be more or less than the original issue price depending on market factors.

TAX MATTERS

Opinion of Bond Counsel. In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority and the District in connection with the Bonds, and Bond Counsel has assumed compliance by the Authority and the District with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Bond Counsel expresses no opinion as to any other federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated above. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Bonds.

Certain Ongoing Federal Tax Requirements and Covenants. The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government.

Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the District have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences. The following is a brief discussion of certain collateral federal income tax matters with respect to the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount. "Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity (a bond with the same maturity date, interest rate, and credit terms) means the first price at which at least 10 percent of such maturity was sold to the public, i.e., a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the Bonds. In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium. In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium

Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding. Information reporting requirements apply to interest paid on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous. Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

A copy of the proposed form of opinion of Bond Counsel for the Bonds is attached in "APPENDIX E."

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Trustee and the Owners of the Bonds upon an event of default under the Indenture, the Installment Sale Agreement or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Indenture and the Installment Sale Agreement are subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Approval of Legal Proceedings

The legality and enforceability of the Indenture and the Installment Sale Agreement and certain other legal matters are subject to the approval of Hawkins Delafield & Wood LLP, San Francisco, California, acting as Bond Counsel. See "APPENDIX E" for the proposed form of Bond Counsel's Opinion.

The District has no knowledge of any fact or other information which would indicate that the Indenture and the Installment Sale Agreement are not so enforceable against the Authority or the District except to the extent such enforcement is limited by principles of equity and by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors' rights generally.

Certain legal matters will be passed on for the District and the Authority by Artiano Shinoff, San Diego, California, General Counsel to the District and the Authority, and by Hawkins Delafield & Wood LLP, San Francisco, California, as Disclosure Counsel to the District. A portion of the fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Litigation

At any given time, including the present, there are certain claims, disputes and litigation actions that arise in the normal course of the District's activities. Such matters could, if determined adversely to the District, affect the Wastewater Operations and in some cases the Net Revenues. The Authority and the District will furnish a certificate dated as of the date of delivery of the Bonds that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Indenture or the Installment Sale Agreement, or the sale or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Indenture or the Installment Sale Agreement are to be executed or delivered or the Bonds are to be delivered or affecting the validity thereof or, in the case of the District, which if decided adversely to the District would have a material adverse effect on the District's financial condition and its ability to pay the Installment Payments.

CONCLUDING INFORMATION

No Rating on the Bonds; Secondary Market

The Authority has not made, and does not contemplate making, any application for a rating on the Bonds. No such rating should be assumed based upon any other Authority or District rating that may be obtained. Prospective purchasers of the Bonds are required to make independent determinations as to the credit quality of the Bonds and their appropriateness as an investment.

Should a Bondholder elect to sell a Bond prior to maturity, no representations or assurances can be made that a market will have been established or maintained for the purchase and sale of the Bonds. The Underwriter assumes no obligation to establish or maintain a market for the purchase and sale of the Bonds and is not obligated to repurchase any of the Bonds at the request of the holder thereof.

Underwriting

The Bonds were sold to Hilltop Securities Inc. (the "Underwriter"). The Underwriter is offering the Bonds at the initial offering prices set forth on the inside front cover page hereof. The initial offering prices may be changed from time to time and concessions from the offering prices may be allowed to dealers, banks and others. The Underwriter will purchase the Bonds at a price equal to $3,084,573.70, which amount represents the principal amount of the Bonds, less a net original issue discount of $13,679.90 and less an Underwriter's discount of $21,746.40. The Underwriter will pay certain of its expenses relating to the offering from the Underwriter's discount.

The Municipal Advisor

The material contained in this Official Statement was prepared by the Authority and the District with the assistance of the Municipal Advisor, who advised the Authority and the District as to the financial structure and certain other financial matters relating to the Bonds. The information set forth herein received from sources other than the Authority or the District is believed to be reliable, but such information is not guaranteed by the Authority, the District or the Municipal Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Municipal Advisor are contingent upon the sale and delivery of the Bonds.

Continuing Disclosure

The District will covenant to provide certain annual financial information by not later than March 31 in each year (the "Annual Reports") and notices of the occurrence of certain listed events in accordance with Rule 15c2-12 of the Securities Exchange Act of 1934 as amended (the "Rule"). Harrell & Company Advisors, LLC will act as Dissemination Agent. The specific nature of the information to be contained in the Annual Reports or the notices of listed events and certain other terms of the continuing disclosure obligation are found in the form of the District's Continuing Disclosure Agreement attached in "APPENDIX D - FORM OF CONTINUING DISCLOSURE AGREEMENT."

Within the last five years, the District believes it has not failed to comply in all material respects with any prior undertakings with regard to the Rule.

Audited Financial Statements

The District's audited financial statements for Fiscal Year 2018-19 with the Report by Independent Certified Public Accounts included in this Official Statement have been audited by Teaman, Ramirez & Smith, Inc. (the "Auditor"), independent auditors. Attention is called to the scope limitation described in the Auditor's report accompanying the financial statements. The Auditor has not been requested to consent to the inclusion of its report in this Official Statement. The Auditor has not undertaken to update the audited financial statements for Fiscal Year 2018-19 or its report, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated October 24, 2019. See "APPENDIX B - DISTRICT AUDITED FINANCIAL STATEMENTS" herein.

References

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Bonds.

[Remainder of Page Intentionally Left Blank]

Execution

The execution of this Official Statement has been duly authorized by the District and the Authority.

OTAY WATER DISTRICT

By: /s/ Joseph R. Beachem
Chief Financial Officer

OTAY WATER DISTRICT FINANCING AUTHORITY

By: /s/ Mark Watton
Executive Director

[Remainder of Page Intentionally Left Blank]

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Indenture and the Installment Sale Agreement. Such summary is not intended to be definitive. Reference is made to the actual documents (copies of which are available from the District) for the complete terms thereof.

DEFINED TERMS

The following terms have the following meanings, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary but previously defined in this Official Statement have the respective meanings previously given.

"Additional Payments" means the amounts payable by the District under the Installment Sale Agreement.

"Annual Debt Service" means, as of the date of any calculation and with respect to the Installment Payments or any Parity Obligations, as the case may be, the sum obtained for the current or any future Fiscal Year during the Term of the Installment Sale Agreement by totaling the following amounts for such Fiscal Year:

(a) the aggregate amount of the Installment Payments coming due and payable in such Fiscal Year pursuant to the Indenture, except to the extent payable from any security deposit pursuant to the Installment Sale Agreement; and

(b) the principal amount of all outstanding Parity Obligations, if any, coming due and payable by their terms in such Fiscal Year.

"Authority" means the Otay Water District Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State of California.

"Authorized Representative" shall have the meaning assigned to search term in the Indenture.

"Bond Counsel" means (a) Hawkins Delafield & Wood LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

"Bond Fund" means the fund by that name established and held by the Trustee under the Indenture.

"Bond Law" means the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

"Business Day" means any day (i) other than a Saturday or a Sunday or (ii) any other day on which commercial banks located in the city in which the Office of the Trustee is located are authorized or required by law to close.

"Closing Date" means the date of delivery of the Bonds to the Original Purchaser.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the District relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to:

printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee, and the Trustee's counsel, including the Trustee's first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; bond insurance and surety bond premiums, if any; fees and charges for preparation, execution and safekeeping of the Bonds; and any other cost, charge or fee in connection with the original issuance of the Bonds.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee under the Indenture.

"Defeasance Obligations" means:

(a) Cash;

(b) Federal Securities;

(c) evidences of ownership of proportionate interests in future interest and principal payments on Federal Securities held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Federal Securities are not available to any person claiming through the custodian or to whom the custodian may be obligated;

(d) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively; or

(e) securities eligible for "AAA" defeasance under then existing criteria of S&P or any combination thereof.

"Depository" means (a) initially, DTC, and (b) any other Securities Depositories acting as Depository under the Indenture.

"Depository System Participant" means any participant in the Depository's book-entry system.

"DTC" means The Depository Trust Company and its successors and assigns.

"Event of Default" means any of the events specified in the Indenture.

"Excess Investment Earnings" means an amount required to be rebated to the United States of America under Section 148(f) of the Tax Code due to investment of gross proceeds of the Bonds at a yield in excess of the yield on the Bonds.

"Federal Securities" means: (a) any non-callable direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; and (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are fully, unconditionally and directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

"Fiscal Year" means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

"Fitch" means Fitch Ratings and its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority or the District.

"Governmental Agency" means the State of California, and the United States of America, acting through any of its agencies, to the extent that the State of California or such agency has loaned money to the District for the District Wastewater Operations.

"Governmental Loan" means any loan made by a Governmental Agency to the District that is secured by a pledge of Net Revenues and incurred by the District to finance improvements to the Wastewater Operations pursuant to the Installment Sale Agreement.

"Indenture" means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture under the provisions hereof.

"Independent Accountant" means any certified public accountant or firm of certified public accountants appointed and paid by the District, and who, or each of whom (a) is in fact independent and not under domination of the District; (b) does not have any substantial interest, direct or indirect, in the District; and (c) is not connected with the District as an officer or employee of the District but who may be regularly retained to make annual or other audits of the books of or reports to the District.

"Installment Payment Date" means, with respect to any Interest Payment Date, the fifth Business Day immediately preceding that Interest Payment Date.

"Installment Payments" means all payments required to be paid by the District on any date under the Installment Sale Agreement, including any amounts payable upon delinquent installments and including any prepayment thereof under the Installment Sale Agreement, but does not include Additional Payments.

"Installment Sale Agreement" means the Installment Sale Agreement dated as of December 1, 2019, between the District and the Authority, together with any duly authorized and executed amendments thereto.

"Interest Account" means the account by that name established and held by the Trustee in the Bond Fund under the Indenture.

"Maximum Annual Debt Service" means, as of the date of any calculation and with respect to the Installment Payments or any Parity Obligations, as the case may be, the maximum sum obtained for the current or any future Fiscal Year during the Term of the Installment Sale Agreement by totaling the following amounts for such Fiscal Year:

(a) the aggregate amount of the Installment Payments coming due and payable in such Fiscal Year pursuant hereto, except to the extent payable from any security deposit pursuant to the Installment Sale Agreement;

(b) the principal amount of all outstanding Parity Obligations, if any, coming due and payable by their terms in such Fiscal Year;

(c) the amount of interest which would be due during such Fiscal Year on the aggregate principal amount of all outstanding Parity Obligations, if any, which would be outstanding in such Fiscal Year if such Parity Obligations are retired as scheduled; and

(d) loan payments to be made to a Governmental Agency under a Governmental Loan, if any, coming due and payable by its terms in such Fiscal Year.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the District.

“Office” means the corporate trust office of the Trustee, or such other or additional offices as the Trustee may designate in writing to the District from time to time as the corporate trust office for purposes of the Indenture; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

“Outstanding,” when used as of any particular time with reference to Bonds, means, subject to the terms of the Indenture, all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except:

(a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds with respect to which all liability of the Authority and the District has been discharged in accordance with the Indenture, including Bonds (or portions thereof) described in the provisions of the Indenture regarding disqualified Bonds; and

(c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds have been authenticated and delivered by the Trustee under the Indenture.

“Overdue Rate” means the highest rate of interest on any of the Outstanding Bonds.

“Owner,” whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

“Parity Obligations Documents” means, collectively, the indenture of trust, trust agreement, installment sale agreement, or other document authorizing the issuance of any Parity Obligations or any securities which evidence Parity Obligations.

“Permitted Investments” means any of the following which at the time of investment are determined by the District to be legal investments under the laws of the State of California for the moneys proposed to be invested therein (provided that the Trustee shall be entitled to rely upon any investment directions from the District as conclusive certification to the Trustee that the investments described therein are so authorized under the laws of the State of California):

(a) Federal Securities.

(b) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including: Export-Import Bank, Farmers Home Administration, General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association, U.S. Department of Housing & Urban Development, and Federal Housing Administration;

(c) bonds, notes or other evidences of indebtedness rated AAA by S&P and Aaa by Moody’s issued by the Fannie Mae or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years;

(d) U.S. dollar denominated deposit accounts (including those with the Trustee or with any affiliate of the Trustee), unsecured certificates of deposit, including those placed by a third party pursuant to an agreement between the Trustee and the Authority, demand deposits, including interest bearing money market accounts, trust deposits, trust accounts, time deposits, overnight bank deposits, interest-bearing deposits, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of A-1 or A-1+ by S&P and P-1 by Moody's, and maturing no more than 360 days after the date of purchase;

(e) commercial paper which is rated at the time of purchase in the single highest classification, A-1+ by S&P and P-1 by Moody's and which matures not more than 270 days after the date of purchase;

(f) investments in a money market mutual fund rated, at the time of purchase, AAAm or AAAm-G or better by S&P, which shall exclude funds with a floating net asset value and may include funds for which the Trustee or its affiliates provide investment advisory or other management services for a fee, including serving as administrator, shareholder servicing agent, and/or custodian or sub-custodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(g) Repurchase and reverse repurchase agreements collateralized with Federal Securities, including those of the Trustee or any of its affiliates.

(h) any pre-refunded bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, at the time of purchase, based on the refunding escrow, in the highest rating category of S&P and Moody's or (ii)(A) which are fully secured as to principal and interest and redemption premium (if any) by a fund consisting only of cash or Federal Securities, which fund may be applied only to the payment of such principal of and interest and redemption premium (if any) in such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates under such irrevocable instructions, as appropriate, and (B) which fund is sufficient, as verified by an Independent Accountant, to pay principal of and interest and redemption premium (if any) on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate;

(i) investment agreements, with notice to each rating agency then rating the Bonds;

(j) the Local Agency Investment Fund established under Section 16429.1 of the Government Code of the State of California, *provided*, *however*, that with respect to amounts held by the Trustee under the Indenture, to the extent the Trustee is authorized to register such investment in its name; and

(k) any other investment permitted under Section 53601 of the California Government Code.

"Principal Account" means the account by that name established and held by the Trustee in the Bond Fund under the Indenture.

"Project" means the facilities, improvements and other property described more fully in the Installment Sale Agreement, as that description may be amended from time to time in accordance with the Installment Sale Agreement.

"Project Costs" means, with respect to the Project, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

(a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction and installation of the Project;

(b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Project;

(c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Project;

(d) all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commissions, and for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project;

(e) any sums required to reimburse the District for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Project;

(f) all financing costs incurred in connection with the acquisition, construction and installation of the Project; and

(g) the interest components of the Installment Payments allocable to the Project that come due during the period of acquisition, construction and installation of the Project.

"Project Fund" means the fund by that name established and held by the District under the Indenture.

"Record Date" means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established and held by the Trustee under the Indenture.

"Registration Books" means the records maintained by the Trustee under the Indenture for the registration and transfer of ownership of the Bonds.

"S&P" means S&P Global Ratings, its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the District.

"Securities Depositories" means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses or such other securities depositories as the District designates in written notice filed with the Trustee.

"Supplemental Indenture" means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Tax Code" means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under said Tax Code.

"Term" means, when used with respect to the Installment Sale Agreement, the time during which the Installment Sale Agreement is in effect.

"Trustee" means the Trustee identified in the Indenture.

"Written Certificate," "Written Request" and "Written Requisition" of the Authority or the District mean, respectively, a written certificate, request or requisition signed in the name of the Authority or the District by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

INSTALLMENT SALE AGREEMENT

Installment Payments

The District agrees to pay Installment Payments as the purchase price of the Project. The Installment Payments are payable solely from the Net Revenues and other funds pledged under the Installment Sale Agreement.

Option to Prepay

The District has the option to prepay the Installment Payments or post a security deposit to pay the Installment Payments, in whole or in part, in the amounts and on the dates set forth in the Installment Sale Agreement. The optional prepayment dates and prices have been determined to correspond to the optional redemption dates and prices applicable to the Bonds under the Indenture.

Assignment and Amendment

The Authority and the District may at any time amend or modify any of the provisions of the Installment Sale Agreement, but only: (a) with the prior written consent of the Owners of a majority in aggregate principal amount of the Outstanding Bonds, or (b) without the consent of the Trustee or any of the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

(i) to add to the covenants and agreements of the District contained in the Installment Sale Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the District;

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Installment Sale Agreement, to conform to the original intention of the District and the Authority;

(iii) to modify, amend or supplement the Installment Sale Agreement in such manner as to assure that the interest on the Bonds remains excluded from gross income under the Tax Code (provided that this provision shall not apply to bonds the interest on which is intended to be included in gross income for purposes of federal income taxation);

(iv) in any other respect whatsoever as the Authority and the District deem necessary or desirable, if in the opinion of Bond Counsel such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds; and

(v) to provide for the issuance of Parity Obligations pursuant to the Installment Sale Agreement.

No such modification or amendment may (a) extend or have the effect of extending any Installment Payment Date or reducing any Installment Payment or any premium payable upon the prepayment thereof, without the express consent of the Owners of the affected Bonds, or (b) modify any of the rights or obligations of the Trustee without its written assent thereto.

Events of Default

Each of the following constitutes an event of default under the Installment Sale Agreement:

(a) Failure by the District to pay any Installment Payment when due and payable under the Installment Sale Agreement.

(b) Failure by the District to pay any Additional Payment when due and payable under the Installment Sale Agreement, and the continuation of such failure for a period of 30 days.

(c) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of 60 days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Authority or the Trustee; *provided*, *however*, that if the District notifies the Authority and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 60-day period, such failure will not constitute an event of default if the District commences to cure such failure within such 60 day period and thereafter diligently and in good faith cures the failure in a reasonable period of time not to exceed 180 days of the date of such written notice of failure.

(d) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

(e) The occurrence of any event defined to be an event of default under any Parity Obligations Documents.

Remedies on Default

If an Event of Default occurs and is continuing, the Trustee as assignee of the Authority and subject to its rights and protections under the Indenture has the right, at its option and without any further demand or notice, to take any one or more of the following actions:

(a) Declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the Overdue Rate from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable.

Notwithstanding the foregoing provisions of this subsection (a), the Trustee shall rescind and annul such declaration and its consequences if, before any judgment or decree for the payment of the moneys due has been obtained or entered, if (i) the District deposits with the Trustee a sum sufficient to pay all principal components of the Installment Payments coming due prior to such declaration and all matured interest components (if any) of the Installment Payments, with interest on such overdue principal and interest components calculated at the Overdue Rate, and (ii) the District pays the reasonable expenses of the Trustee (including any fees and expenses of its attorneys), and (iii) any and all other defaults actually known to the Trustee (other than in the payment of the principal and interest components of the Installment Payments due and payable solely by reason of such declaration) have been made good. No such rescission and annulment will extend to or shall affect any subsequent default, or impair or exhaust any right or power consequent thereon.

(b) Take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the Term of the Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the District under the Installment Sale Agreement.

(c) As a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners hereunder, cause the appointment of a receiver or receivers of the Gross Revenues and other amounts pledged under the Installment Sale Agreement, with such powers as the court making such appointment may confer.

No Remedy Exclusive

No remedy conferred upon or reserved to the Authority under the Installment Sale Agreement is intended to be exclusive. Every such remedy is cumulative and in addition to every other remedy given under the Installment Sale Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default impairs any such right or power or operates as a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in the Installment Sale Agreement, it is not necessary to give any notice, other than such notice as may be required in the Installment Sale Agreement or by law.

No Additional Waiver Implied by One Waiver

If any agreement contained in the Installment Sale Agreement is breached by either party and thereafter waived by the other party, such waiver is limited to the particular breach so waived and does not waive any other breach thereunder.

Trustee and Bond Owners to Exercise Rights

Such rights and remedies as are given to the Authority under the Installment Sale Agreement have been assigned by the Authority to the Trustee under the Indenture, to which assignment the District consents. Such rights and remedies shall be exercised by the Trustee and the Owners of the Bonds as provided in the Indenture.

INDENTURE OF TRUST

Funds and Accounts; Flow of Funds

Costs of Issuance Fund. A portion of the proceeds of the Bonds will be deposited by the Trustee in the Costs of Issuance Fund on the Closing Date. The Trustee will disburse amounts in the Costs of Issuance Fund from time to time to pay the Costs of Issuance upon submission of a Written Requisition of the District stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. The Trustee may conclusively rely on the representations and certifications set forth in such Written Requisitions and shall be fully protected in relying thereon.

Project Fund. The District shall establish and maintain a separate fund to be known as the "Project Fund" into which the District shall deposit a portion of the proceeds of sale of the Bonds received from the Trustee pursuant to the Indenture. Except as otherwise provided in the Indenture, moneys in the Project Fund will be used solely for the payment of the Project Costs. The District shall determine if amounts charged against the Project Fund are proper charges against such fund, and the District shall maintain a record of disbursed amounts from the Project Fund, including the person to whom payment was made, the amount paid, and the purpose for which the obligation was incurred.

Upon the completion of the Project, the District shall deposit in the Interest Account held by the Trustee all amounts remaining on deposit in the Project Fund, and the District shall thereupon close the Project Fund.

Bond Fund. All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required hereunder or under the Installment Sale Agreement to be deposited in the Redemption Fund shall be promptly deposited in such fund.

All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Any surplus remaining in the Bond Fund, after payment in full of (i) the principal of and interest on the Bonds or provision therefore under the provisions of the Indenture regarding defeasance, and (ii) any applicable fees and expenses of the Trustee, will be withdrawn by the Trustee and remitted to the District.

Redemption Fund. The Trustee will establish (when needed) and maintain the Redemption Fund, into which the Trustee shall deposit a portion of the Revenues received representing optional prepayments of the Installment Payments, in accordance with a Written Request of the District.

Amounts on deposit in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and premium (if any) of the Bonds to be redeemed under the Indenture; provided, however, that at any time prior to the selection of Bonds for redemption, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed under a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

The Trustee shall be entitled to conclusively rely on any Written Request of the District received under this provision of the Indenture, and shall be fully protected in relying thereon.

Investment of Funds

All moneys in any of the funds or accounts established with the Trustee under the Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the District under a Written Request of the District filed with the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such directions from the District, the Trustee will hold any such moneys uninvested.

Permitted Investments purchased as an investment of moneys in any fund will be deemed to be part of such fund or account. To the extent Permitted Investments are registrable, such Permitted Investments must be registered in the name of the Trustee.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Bond Fund.

For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it thereunder. The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee may rely conclusively on the written investment direction of the District as to the suitability and legality of the directed investments.

The Trustee shall incur no liability for losses arising from any investments made under this provision of the Indenture.

The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture. The Trustee is authorized, in making or disposing of any investment permitted by this provision of the Indenture, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or is dealing as a principal for its own account.

The Authority and the District acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur at no additional cost, the District specifically waives receipt of such confirmations to the extent permitted by law. The District further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker. The Trustee will furnish the District periodic cash transaction statements which shall include detail for all investment transactions made by the Trustee hereunder. Upon the District's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request.

The moneys on deposit in the funds and accounts established under the Indenture shall not be deemed "surplus" under Section 53601 of the Government Code.

Covenants of the Authority

Payment of Bonds. The Authority will punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of the Revenues and other amounts pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which have not been so extended.

Nothing in this provision of the Indenture limits the right of the District to cause the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance does not constitute an extension of maturity of the Bonds.

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture.

Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized under law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other amounts purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture.

The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries will be made of all transactions made by it relating to the proceeds of Bonds and all funds and accounts established under the Indenture. The Trustee will make such books of record and account available for inspection by the Authority and the District during business hours, upon reasonable notice, and under reasonable circumstances.

Tax Covenants.

(a) Private Business Use Limitation. The Authority will assure that the proceeds of the Bonds are not used in a manner that would cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The Authority may not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The Authority may not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds or of any other obligations which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Tax Code.

(d) Maintenance of Tax Exemption. The Authority will take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date.

(e) Rebate of Excess Investment Earnings to United States. The Authority will calculate or cause to be calculated all amounts of Excess Investment Earnings with respect to the Bonds which are required to be rebated to the United States of America under Section 148(f) of the Tax Code, at the times and in the manner required under the Tax Code.

The Authority will pay when due an amount equal to Excess Investment Earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from any source of legally available funds of the Authority.

The Authority will keep or cause to be kept, and retain or cause to be retained for a period of 6 years following the retirement of the Bonds, records of the determinations made under this subsection (e).

The Trustee may rely conclusively upon the Authority's determinations, calculations and certifications required by this section of the Indenture. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Authority's calculations thereunder.

Enforcement of Installment Sale Agreement. The Trustee will promptly collect all amounts (to the extent any such amounts are available for collection) due from the District under the Installment Sale Agreement.

Subject to the provisions of the Indenture, the Trustee may enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the District under the Installment Sale Agreement.

Waiver of Laws. The Authority will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority to the extent permitted by law.

Further Assurances. The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Amendment of Indenture

Amendments With Bond Owner Consent. The Indenture and the rights and obligations of the Authority, the District and Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by Supplemental Indenture, which the Authority and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding are filed with the Trustee.

No such modification or amendment may:

(i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or

(ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted therein, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding.

It is not necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof.

<u>Amendments Without Owner Consent</u>. The Indenture and the rights and obligations of the Authority, the District, the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture will not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority or the District contained in the Indenture, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the District;

(ii) to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the District deems necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel filed with the Trustee;

(iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(iv) to modify, amend or supplement the Indenture in such manner as to assure that the interest on the Bonds remains excluded from gross income under the Tax Code; or

(v) to modify any of the provisions of the Indenture in any other respect, provided that such modifications do not have a material adverse effect on the interests of the Owners of the Bonds, in the opinion of Bond Counsel filed with the Trustee.

<u>Limitation</u>. The Trustee is not obligated to enter into any Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

<u>Bond Counsel Opinion Requirement</u>. Prior to the Trustee entering into any Supplemental Indenture, the District shall deliver to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture, the

Supplemental Indenture is the legal, valid and binding obligation of the District and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

Notice of Amendments. The District will deliver or cause to be delivered a draft of any Supplemental Indenture to each rating agency which then maintains a rating on the Bonds, at least 10 days prior to the effective date of such Supplemental Indenture.

Events of Default

Events of Default Defined. The following events constitute Events of Default under the Indenture:

(a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Failure to pay any installment of interest on the Bonds when due.

(c) Failure by the Authority to observe and perform any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, if such failure has continued for a period of 60 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the Authority by the Trustee provided, however, if in the reasonable opinion of the Authority the failure stated in the notice can be corrected, but not within such 60-day period, such failure will not constitute an Event of Default if the Authority institutes corrective action within such 60-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time, not to exceed 180 days of the date of the written notice of such failure.

(d) The commencement by the Authority of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

(e) The occurrence and continuation of an Event of Default under and as defined in the Installment Sale Agreement.

Remedies. If any Event of Default occurs, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and shall, at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding shall, in each case, upon receipt of indemnification satisfactory to Trustee against the costs, expenses and liabilities to be incurred in connection with such action, upon notice in writing to the Authority, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

The foregoing provision, however, is subject to the condition that if, at any time after the principal of the Bonds has been so declared due and payable, the Authority shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal of the Bonds maturing prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) are made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate is made therefor, then, and in every such case, the Trustee, on behalf of the Owners of all of the Bonds, shall rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon; provided, however, that no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

In addition to declaring the principal of all of the Bonds, and the interest accrued thereon, to be immediately due and payable as set forth above, the Trustee shall have the right to pursue any other remedy provided by law or in equity or otherwise after an Event of Default has occurred.

Application of Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture will be applied by the Trustee in the following order of priority:

(a) To the payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its legal counsel including outside counsel and the allocated costs of internal attorneys) incurred in and about the performance of its powers and duties under the Indenture; and

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available is not sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any law. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture. Nothing in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

Limitation on Bond Owners' Right to Sue. Notwithstanding any other provision of the Indenture, no Owner of any Bonds has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Sale Agreement or any other applicable law with respect to such Bonds, unless

(a) such Owner has given to the Trustee written notice of the occurrence of an Event of Default;

(b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding have requested the Trustee in writing to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name;

(c) such Owner or Owners have tendered to the Trustee satisfactory indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and

(e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds (it being understood that the Trustee does not have an affirmative duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such Owners), the Indenture, the Installment Sale Agreement or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority. Nothing in the Indenture or in the Bonds affects or impairs the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest and premium (if any) on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon acceleration or call for redemption, as provided in the Indenture, but only out of the Revenues and other assets herein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or by any one or more Bond Owners on account of any Event of Default have been discontinued or abandoned for any reason or have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners will continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee, or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient by the Trustee or the Bond Owners.

Defeasance

Discharge of Indenture. Any or all of the Outstanding Bonds may be paid by the District in any of the following ways, provided that the District also pays or causes to be paid any other sums payable under the Indenture by the District:

(a) by paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem such Bonds; or

(c) by delivering to the Trustee, for cancellation by it, such Bonds.

If the District pays all outstanding Bonds as provided above and also pays or causes to be paid all other sums payable under the Indenture by the District, then and in that case, at the election of the District (evidenced by a Written Certificate of the District, filed with the Trustee, signifying the intention of the District to discharge all such indebtedness and the Indenture), and notwithstanding that any of such Bonds have not been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture with respect to such Bonds and all covenants, agreements and other obligations of the District under the Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied, subject to the provisions of the Indenture regarding discharge of liability on the Bonds.

In such event, upon the Written Request of the District, the Trustee will execute and deliver to the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the District all moneys or securities or other property held by it under the Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption.

The Trustee is entitled to conclusively rely on any such Written Certificate or Written Request and, in each case, is fully protected in relying thereon.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption is given as provided in the Indenture or provision satisfactory to the Trustee is made for the giving of such notice, then all liability of the Authority and the District in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture regarding unclaimed funds.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established under the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee is made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds, premium, if any, and all unpaid interest thereon to the redemption date; or

(b) non-callable Defeasance Obligations, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the District, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption is given as provided in the Indenture or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that (i) the Trustee has been irrevocably instructed (by the terms of the Indenture or by Written Request of the District) to apply such money to the payment of such principal, interest and premium (if any) with respect to such Bonds, and (ii) the District has delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above).

The Trustee will be entitled to conclusively rely on such Written Request or opinion and shall be fully protected, in each case, in relying thereon.

Unclaimed Funds. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for 2 years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or 2 years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the District free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the District as aforesaid, the Trustee shall (at the cost of the District) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the District of the moneys held for the payment thereof.

In the absence of any such written request, the Trustee shall from time to time deliver such unclaimed funds to or as directed by pertinent escheat authority, as identified by the Trustee, pursuant to and in accordance with applicable unclaimed property laws, rules or regulations, any such delivery shall be in accordance with the customary practices and procedures of the Trustee and the escheat authority. All moneys held by the Trustee and subject to this provision of the Indenture shall be held uninvested and without liability for interest thereon.

[Remainder of Page Intentionally Left Blank]

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

DISTRICT AUDITED FINANCIAL STATEMENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

OTAY WATER DISTRICT

FINANCIAL STATEMENTS
WITH
REPORT ON AUDIT BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2019 and 2018

TABLE OF CONTENTS

Years Ended June 30, 2019 and 2018

TRS TEAMAN, RAMIREZ & SMITH, INC.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Otay Water District
Spring Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Otay Water District (the "District"), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Otay Water District as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

Emphasis of Matters

As described in Note 1 to the basic financial statements, as of June 30, 2019, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Our opinion is not modified with respect to this matter.

As described in Note 1 to the basic financial statements, as of June 30, 2018, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financing Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 3-10 and 59-62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Teaman Ramirez & Smith, Inc.

Riverside, California
October 24, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Otay Water District (the "District"), we offer readers of the District's financial statements, this narrative overview, and analysis of the District's financial performance during the fiscal year ending June 30, 2019. Please read it in conjunction with the District's financial statements that follow Management's Discussion and Analysis. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $387.6 million *(net position)*. Of this amount, $28.7 million *(unrestricted net position)* may be used to meet the District's ongoing obligations to residents and creditors.

- Total assets decreased by $6.5 million or 1.17% during Fiscal Year 2019, to $548.0 million, due primarily to depreciation and a $31.8 million advance payment to CALPERS plan, reducing the District's unfunded pension liability. These reductions are partially offset by Water Bond proceeds and investments in capital infrastructure.

Overview of the Financial Statements

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

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

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

The *Statements of Cash Flows* presents information on cash receipts and payments for the fiscal year. The *Notes to the Financial Statements* provides additional information that is essential to a full understanding of the data supplied in each of the specific financial statements listed above.

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

Financial Analysis:

As noted, net position may serve, over time, as a useful indicator of an entity's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $387.6 million at the close of the most recent fiscal year.

The largest portion of the District's net position, $354.6 million (91%), reflects its investment in capital assets, plus unused debt proceeds, less any remaining outstanding debt used to acquire those assets. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported effectively as a resource, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statements of Net Position
(In Millions of Dollars)

	2019	2018	2017
Assets			
Current and Other Assets	$ 89.7	$ 103.6	$ 112.9
Capital Assets	458.3	450.9	450.2
Total Assets	548.0	554.5	563.1
Deferred Outflows of Resources			
Deferred Amount on Refunding	0.0	0.0	0.2
Deferred Actuarial Pension Costs	39.0	10.2	10.7
Deferred Actuarial OPEB Costs	2.2	2.2	0.0
Total Deferred Outflows of Resources	41.2	12.4	10.9
Liabilities			
Long-Term Debt Outstanding	114.3	91.2	95.6
Net Pension Liability	48.4	49.6	45.2
Net OPEB Liability	3.4	4.7	0.0
Other Liabilities	33.8	32.4	28.2
Total Liabilities	199.9	177.9	169.0
Deferred Inflows of Resources			
Deferred Actuarial Pension Costs	1.2	0.9	3.8
Deferred Actuarial OPEB Costs	0.5	0.6	0.0
Total Deferred Inflows of Resources	1.7	1.5	3.8
Net Position (1)			
Net Investment in Capital Assets	354.6	355.6	351.0
Restricted for Debt Service	4.3	4.2	4.3
Unrestricted	28.7	27.7	45.9
Total Net Position	$ 387.6	$ 387.5	$ 401.2

The District's operations and population continue to grow, albeit at slower rates than the housing boom years. Much of this growth has and will continue to occur in the residential sector, especially in the area of multi-family dwellings, as well as in the commercial area. The District still has available land to develop unlike other parts of the County, as well as low unemployment and job creation, which has spurred the development in the service area.

In FY 2019, the District's Capital Assets increased by $18.9 million before accumulated depreciation. (See Note 4 in the Notes to Financial Statements). The District also saw an increase in long-term debt of $23.1 million due to the issuance of the 2018 Water Revenue Bonds partially offset by annual debt service payments (See Note 5 in the Notes to Financial Statements).

Deferred outflows of Resources increased by $28.8 million in FY 2019 and by $1.5 million in FY 2018. The significant increase in FY 2019 is due to the $31.8 additional funding to CALPERS which will reduce the Net Pension Liability in FY 2020.

At the end of FY 2019, the District can report positive balances in all categories of net position. This situation also held true for the prior two fiscal years.

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

	2019	2018	2017
Water Sales	$ 86.8	$ 92.6	$ 83.7
Wastewater Revenue	3.0	2.9	3.0
Connection and Other Fees	2.2	2.0	1.8
Non-operating Revenues	10.5	7.9	10.1
Total Revenues	102.5	105.4	98.6
Depreciation Expense	16.8	17.5	17.8
Other Operating Expenses	86.9	88.3	78.8
Non-operating Expenses	8.1	5.0	7.7
Total Expenses	111.8	110.8	104.3
Loss Before Capital Contributions	(9.3)	(5.4)	(5.7)
Capital Contributions	9.4	9.5	5.6
Change in Net Position	0.1	4.1	(0.1)
Beginning Net Position, As Previously Stated	387.5	401.2	401.3
Prior Period Adjustment	0.0	(17.8)	0.0
Beginning Net Position, As Restated	387.5	383.4	401.3
Ending Net Position	$ 387.6	$ 387.5	$ 401.2

Water Sales decreased by $5.8 million in FY 2019 due to a decrease in units sold as the result of above average rainfall. Water Sales increased by $8.9 million in FY 2018 due to increases in units sold and water rates.

Other Operating Expenses decreased by $1.4 million in FY 2019 and increased by $9.5 million in FY 2018, predominantly due to the decrease and increase in water units purchased as a result of changes in water sales volumes in FY 2019 and FY 2018, respectively.

Certain planning and environmental study costs associated with capital projects, such as the North & South District Interconnection in 2019, and recycled permanent moratorium in Otay Mesa for 2018, do not qualify as capital costs under Generally Accepted Accounting Principles and are included in the miscellaneous (non-operating) expenses of the District. For FY 2019 and FY 2018, those expenses were $3.3 million and $0.9 million, respectively.

Connection and Other Fees increased by $0.2 million in FY 2019 and FY 2018. Capital Contributions decreased by $0.1 million in FY 2019 brought about by the steady economy as compared to an increase of $3.9 million in FY 2018.

Non-operating Revenues

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

	2019	2018	2017
Taxes and Assessments	$ 4.7	$ 4.5	$ 4.1
Rents and Leases	1.4	1.4	1.4
Other Non-operating Revenue	4.4	2.0	4.6
Total Non-operating Revenues	$ 10.5	$ 7.9	$ 10.1

The District's total non-operating revenues increased by $2.6 million in FY 2019 due to increases in investment earnings, taxes and transfer of capacity revenue from capital contribution to fund project expenditures that do not qualify as capital expenditures. Total non-operating revenues in FY 2018 decreased by $2.2 million due to decreases in investment income, capacity fee revenue and an increase in losses from capital asset disposals.

Capital Assets and Debt Administration

The District's capital assets (net of accumulated depreciation) as of June 30, 2019, totaled $458.3 million. Included in this amount is land, which is a non-depreciable asset. The District's net capital assets increased by 1.64% and .16% for FY 2019 and FY 2018 respectively.

Capital Assets
(In Millions of Dollars)

	2019	2018	2017
Land	$ 14.4	$ 14.4	$ 14.4
Construction in Progress	33.2	17.6	14.2
Potable Water System	488.8	484.2	483.8
Recycled Water System	114.8	114.7	112.3
Sewer System	48.5	48.2	44.5
Field Equipment	8.6	8.5	9.0
Buildings	19.2	20.1	20.6
Transportation Equipment	3.5	3.4	3.3
Communication Equipment	3.4	3.5	3.4
Office Equipment	16.8	17.7	17.6
	751.2	732.3	723.1
Less Accumulated Depreciation	(292.9)	(281.4)	(272.9)
Net Capital Assets	$ 458.3	$ 450.9	$ 450.2

As indicated by figures in the table above, majority of capital assets added during both fiscal years were related to the water and sewer systems. In addition, majority of the cost of construction-in-progress is also related to water systems. Additional information on the District's capital assets can be found in Note 4 of the Notes to Financial Statements.

In November 2018, the District issued $32.4 million in Water Revenue Bonds, Series 2018 to provide funds for construction of water storage, treatment and transmission facilities and advance refunded $6.9 million of the 1996 Certificates of Participation. As of June 30, 2019, approximately $15.3 million of the bond proceeds remain in cash and investments.

At June 30, 2019, the District had $114.3 million in outstanding debt (net of $4.7 million of maturities occurring in FY 2020), which consisted of the following:

General Obligation Bonds	$ 2.2
Revenue Bonds	112.1
Total Long-Term Debt	$ 114.3

Additional information on the District's long-term debt can be found in Note 5 of the Notes to Financial Statements.

Prior Period Adjustment

The Governmental Accounting Standards Board (GASB) issued Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions - an amendment of GASB Statement No. 45",* for periods beginning after June 15, 2017. The District implemented these standards in FY 2018. The result of the implementation of these standards was to decrease the net position at July 1, 2017 by $17.8 million, which recognizes net OPEB liability, deferred outflows of resources, deferred inflows of resources, and expenses related to the OPEB plan.

Fiscal Year 2019-2020 Budget

Economic Factors

The San Diego region imports 80% of its potable supply, so factors such as local rainfall as well as weather conditions elsewhere in the western portion of the nation can affect the region. San Diego received above average rainfall in FY 2019, and the District anticipates an average rainfall pattern in the coming years.

Between 2008 and 2016, the District's water sales declined for the District by nearly 30%. This decrease was driven by many factors including the economic downturn caused by the great recession, increases in the price of imported water, State mandated cuts in potable water use due to the prolonged statewide drought, and reductions as a result of increasing conservation efforts. Decreases in water sales during this period were offset by corresponding decreases in water purchases and District managed costs such as reduced employee count and internal cost cuts, achieved through automation and streamlining of processes. Due to record rain and snowfall, the state mandated conservation ended in FY 2017. Above average rainfall has led to water sales volume decreasing 7.4% in 2019 while an increase of 9.0% in 2018 was due to the removal of state mandates, dry winters and increased development. The District is budgeting an 8.3% sales volume decrease in FY 2020 compared to the FY 2019 budget. The FY 2019 budget assumed that rainfall would be less than average and comparable to FY 2018. The FY 2020 budget is based on 3-year average sales volumes.

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

The District is currently at about 69% of its projected ultimate population, serving approximately 225,000 people. Long-term, this percentage should continue to increase as the District's service area continues to develop and grow. By 2050, the District is projected to serve approximately 308,000 people, with an average daily demand of 46 million gallons per day (MGD). Currently, the District services the needs of this growing population by purchasing water from the San Diego County Water Authority (CWA), who in turn purchases its water from the Metropolitan Water District (MWD) and the Imperial Irrigation District (IID).

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

Financial

The District is budgeted to deliver approximately 26,949.2 acre-feet of potable water to 51,034 potable customer accounts during FY 2019-2020. Management feels that these projections are realistic after accounting for low growth, supply changes, and a focus on conservation. A combination of factors, including weather patterns and economic uncertainty, have created challenges in developing projections for the current fiscal year. Unemployment is currently at historical lows and there is minimal distressed activity in the commercial and residential resale market. The housing market has experienced higher demand compared to the previous years and unemployment is at record lows. District staff projects that over the next six years the District will sell another 2,600 meters which translates to 3,230 equivalent dwelling units (EDUs). This growth is estimated to increase sales volumes by an average of 1% per year over the next five years. While all these factors impact the region's water usage, people's need for water remains an underlying constant. Staff continues working diligently on developing new water supplies as they work through the financial impacts of conservation and the modest economic turnaround.

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

Contacting the District's Financial Management

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

STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Notes 1 and 2)	$ 34,024,168	$ 24,147,997
Restricted Cash and Cash Equivalents (Notes 1 and 2)	19,114,137	80,477
Investments (Note 2)	18,951,991	30,866,180
Board Designated Investments (Note 2)	2,537,589	29,879,617
Restricted Investments (Notes 1 and 2)	460,060	4,166,548
Accounts Receivable, Net	11,787,954	12,109,378
Accrued Interest Receivable	341,518	295,947
Taxes and Availability Charges Receivable, Net	187,203	215,704
Restricted Taxes and Availability Charges Receivable, Net	38,070	27,480
Inventories	775,546	822,737
Prepaid Items and Other Receivables	1,493,831	1,018,820
Total Current Assets	89,712,067	103,630,885
Capital Assets (Note 4):		
Land	14,403,823	14,406,778
Construction in Progress	33,149,164	17,618,059
Capital Assets, Net of Depreciation	410,756,360	418,825,726
Total Capital Assets, Net of Depreciation	458,309,347	450,850,563
Total Assets	548,021,414	554,481,448
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Actuarial Pension Costs (Note 7)	39,022,818	10,186,229
Deferred Actuarial OPEB Costs (Note 8)	2,209,574	2,202,004
Total Deferred Outflows of Resources	$ 41,232,392	$ 12,388,233

Continued

The accompanying notes are an integral part of this statement.

	2019	2018
LIABILITIES		
Current Liabilities:		
Current Maturities of Long-term Debt (Note 5)	$ 4,725,000	$ 4,040,000
Accounts Payable	14,061,824	15,437,565
Accrued Payroll Liabilities	639,247	694,859
Other Accrued Liabilities	5,519,259	4,089,640
Customer and Developer Deposits	3,601,094	3,340,010
Accrued Interest	1,826,242	1,380,446
Unearned Revenues	135,223	233,251
Liabilities Payable from Restricted Assets:		
Restricted Accrued Interest	36,733	45,200
Total Current Liabilities	30,544,622	29,260,971
Non-current Liabilities:		
Long-term Debt (Note 5):		
General Obligation Bonds	2,156,789	2,823,143
Certificates of Participation	-	6,893,293
Revenue Bonds	112,114,228	81,465,550
Net Pension Liability	48,388,906	49,582,316
Net OPEB Liability	3,415,025	4,710,492
Other Non-current Liabilities	3,337,674	3,117,705
Total Non-current Liabilities	169,412,622	148,592,499
Total Liabilities	199,957,244	177,853,470
DEFERRED INFLOWS OF RESOURCES		
Deferred Actuarial Pension Costs (Note 7)	1,157,175	936,234
Deferred Actuarial OPEB Costs (Note 8)	544,777	539,449
Total Deferred Inflows of Resources	1,701,952	1,475,683
NET POSITION		
Net Investment in Capital Assets	354,639,520	355,628,577
Restricted for Debt Service	4,248,007	4,247,025
Unrestricted	28,707,083	27,664,926
Total Net Position	$ 387,594,610	$ 387,540,528

The accompanying notes are an integral part of this statement.

Statements of Revenues, Expenses and Changes in Net Position
For The Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Water Sales	$ 86,756,222	$ 92,595,195
Wastewater Revenue	2,961,157	2,865,520
Connection and Other Fees	2,234,787	2,013,057
Total Operating Revenues	91,952,166	97,473,772
OPERATING EXPENSES		
Cost of Water Sales	60,065,964	62,321,213
Wastewater	2,784,579	2,501,240
Administrative and General	24,070,648	23,445,578
Depreciation	16,807,797	17,466,318
Total Operating Expenses	103,728,988	105,734,349
Operating Income (Loss)	(11,776,822)	(8,260,577)
NON-OPERATING REVENUES (EXPENSES)		
Investment Earnings	1,978,392	723,860
Taxes and Assessments	4,671,182	4,481,719
Availability Charges	723,246	697,724
Gain (Loss) on Disposal of Capital Assets	(1,058,571)	(1,709,538)
Rents and Leases	1,384,211	1,439,247
Miscellaneous Revenues	2,800,613	2,255,605
Donations	(118,040)	(123,050)
Interest Expense	(4,713,883)	(3,941,321)
Miscellaneous Expenses	(3,293,055)	(900,247)
Total Non-operating Revenues (Expenses)	2,374,095	2,923,999
Income (Loss) Before Capital Contributions	(9,402,727)	(5,336,578)
Capital Contributions	9,456,809	9,506,192
Change in Net Position	54,082	4,169,614
Total Net Position, Beginning, As Previously Reported	387,540,528	401,186,989
Prior Period Adjustment (Note 14)	-	(17,816,075)
Total Net Position, Beginning, As Restated	387,540,528	383,370,914
Total Net Position, Ending	$ 387,594,610	$ 387,540,528

The accompanying notes are an integral part of this statement.

Statements of Cash Flows
For The Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 90,299,887	$ 95,612,497
Receipts from Connections and Other Fees	2,234,787	2,013,057
Receipts from Property Rents and Leases	1,384,211	1,316,197
Other Receipts	2,702,585	2,183,296
Payments to Suppliers	(63,834,433)	(61,807,704)
Payments to Employees	(54,403,110)	(21,689,670)
Other Payments	(3,411,095)	(899,502)
Net Cash Provided By (Used For) Operating Activities	(25,027,168)	16,728,171
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from Taxes and Assessments	4,689,093	4,495,002
Net Cash Provided By (Used For) Noncapital and Related Financing Activities	4,689,093	4,495,002
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Contributions	6,788,777	9,254,970
Proceeds from Sale of Capital Assets	50,119	77,684
Proceeds from Debt Related Taxes and Assessments	723,246	697,724
Proceeds from Long-Term Debt	35,145,512	-
Principal Payments on Long-Term Debt	(10,940,000)	(3,820,000)
Interest Payments and Fees	(4,708,034)	(4,427,336)
Acquisition and Construction of Capital Assets	(22,707,238)	(19,388,972)
Net Cash Provided By (Used For) Capital and Related Financing Activities	4,352,382	(17,605,930)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	1,932,821	643,924
Proceeds from Sale and Maturities of Investments	43,170,616	12,631,381
Purchase of Investments	(207,913)	(10,142,153)
Net Cash Provided By (Used For) Investing Activities	44,895,524	3,133,152
Net Increase (Decrease) in Cash and Cash Equivalents	28,909,831	6,750,395
Cash and Cash Equivalents - Beginning	24,228,474	17,478,079
Cash and Cash Equivalents - Ending	$ 53,138,305	$ 24,228,474

Continued

The accompanying notes are an integral part of this statement.

Statements of Cash Flows - continued
For The Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Operating Income (Loss) to Net Cash Flows		
Provided By (Used For) Operating Activities:		
Operating Income (Loss)	$ (11,776,822)	$ (8,260,577)
Adjustments to Reconcile Operating Income to		
Net Cash Provided By (Used For) Operating Activities:		
Depreciation	16,807,797	17,466,318
Receipts from Property Rents and Leases	1,384,211	1,316,197
Miscellaneous Revenues	2,702,585	2,183,296
Miscellaneous Expenses	(3,411,095)	(899,502)
(Increase) Decrease in Accounts Receivable	321,424	263,462
(Increase) Decrease in Inventory	47,191	(85,552)
(Increase) Decrease in Prepaid Items and Other Receivables	(475,011)	(56,801)
(Increase) Decrease in Deferred Actuarial Pension Costs	(28,836,589)	494,900
(Increase) Decrease in Deferred Actuarial OPEB Costs	(7,570)	82,416
Increase (Decrease) in Accounts Payable	(1,375,741)	3,893,151
Increase (Decrease) in Accrued Payroll and Related Expenses	(55,612)	(90,637)
Increase (Decrease) in Other Accrued Liabilities	1,429,619	318,137
Increase (Decrease) in Customer and Developer Deposits	261,084	(111,680)
Increase (Decrease) in Prepaid Capacity Fees	219,969	43,392
Increase (Decrease) in Net OPEB Liability	(1,295,467)	(1,834,367)
Increase (Decrease) in Net Pension Liability	(1,193,410)	4,332,872
Increase (Decrease) in Deferred Actuarial Pension Costs	220,941	(2,866,303)
Increase (Decrease) in Deferred Actuarial OPEB Costs	5,328	539,449
Net Cash Provided By (Used For) Operating Activities	$ (25,027,168)	$ 16,728,171
Schedule of Cash and Cash Equivalents:		
Current Assets:		
Cash and Cash Equivalents	$ 34,024,168	$ 24,147,997
Restricted Cash and Cash Equivalents	19,114,137	80,477
Total Cash and Cash Equivalents	$ 53,138,305	$ 24,228,474
Supplemental Disclosures		
Non-Cash Investing and Financing Activities Consisted of the Following:		
Contributed Capital for Water and Sewer System	$ 2,668,032	$ 251,222
Change in Fair Value of Investments and Recognized Gains/Losses	(685,227)	360,248
Amortization Related to Long-term Debt	431,482	364,678

The accompanying notes are an integral part of this statement.

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

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

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

The District formed the Otay Service Corporation on June 21, 1993, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California. The Service Corporation was formed to assist the District in the financing of public capital improvements.

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

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

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

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

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

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

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

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

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

Net Investment in Capital Assets

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

Restricted Net Position

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

Unrestricted Net Position

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

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

The District recognizes revenues from water sales, wastewater revenues, and meter fees as they are earned. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego, net of allowance for delinquencies of $25,030 at June 30, 2019 and $27,020 at June 30, 2018.

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

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

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

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

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

C) New Accounting Pronouncements

Implemented as of June 30, 2019

Governmental Accounting Standard Board Statement No. 83

In November of 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement was issued to address the criteria for the recognition and measurement of the liability and corresponding deferred outflows of resources associated with certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Statement No. 83 is effective for reporting periods beginning after June 15, 2018. Currently, this Statement has no effect on the District's financial statements.

Governmental Accounting Standard Board Statement No. 88

In March of 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement was issued to improve the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Statement No. 88 is effective for fiscal years beginning after June 15, 2018. Currently, this Statement has no effect on the District's financial statements.

Governmental Accounting Standard Board Statement No. 89

In June of 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement was issued to (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Statement No. 89 is effective for fiscal years beginning after December 15, 2019. The District elected to early implement this Statement in the 2019 fiscal year which is reflected in the District's financial statements.

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

C) New Accounting Pronouncements - Continued

Implemented as of June 30, 2018

Governmental Accounting Standard Board Statement No. 75

In June of 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement was issued to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. This Statement has been implemented in the District's financial statements.

Governmental Accounting Standard Board Statement No. 81

In March of 2016, GASB issued Statement No. 81, *Irrevocable Split Interest Agreements.* This statement was issued to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Currently, this statement has no effect on the District's financial statements.

Governmental Accounting Standard Board Statement No. 82

In March of 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.* This statement was issued to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically,

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

C) New Accounting Pronouncements - Continued

Implemented as of June 30, 2018

Governmental Accounting Standard Board Statement No. 82 - Continued

this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement also clarifies the term deviation used in Actuarial Standards of Practice and payments made by the employer to satisfy contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The District has implemented GASB No. 82 which is reflected in the District's financial statements.

Governmental Accounting Standard Board Statement No. 85

In March of 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have risen from the implementation of certain GASB Statements; primarily pension and OPEB related measurement, recognition, timing, and reporting issues. Other issues include blending of component units for governments whose primary activity is business-type, goodwill reporting, classifying real estate held by insurance entities and measuring particular investments at amortized cost. This Statement is effective for reporting periods beginning after June 15, 2017. Currently, this statement has no effect in the District's financial statements.

Governmental Accounting Standard Board Statement No. 86

In May of 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* This Statement expands upon GASB No. 7 *Advance Refundings Resulting in Defeasance of Debt* which defines debt defeased in substance and the criteria for the trusts used to extinguish debt. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. This Statement is effective for reporting periods beginning after June 15, 2017. Currently, this statement has no effect on the District's financial statements.

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

C) New Accounting Pronouncements - Continued

Pending Accounting Standards

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

i. GASB 84 – *"Fiduciary Activities"*, effective for fiscal years beginning after December 15, 2018.
ii. GASB 87 – "*Leases"*, effective for fiscal years beginning after December 15, 2019.
iii. GASB 90 – *"Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61"*, effective for fiscal years beginning after December 15, 2018.
iv. GASB 91 – *"Conduit Debt Obligations"*, effective for fiscal years beginning after December 15, 2020.

D) Deferred Outflows / Inflows of Resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category, deferred actuarial pension costs and deferred actuarial OPEB costs are items that are deferred and recognized as an outflow of resources in the period the amounts become available.

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

E) Statements of Cash Flows

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

F) Investments

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

G) Inventory and Prepaid Items

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

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

H) Capital Assets

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

The District capitalizes interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest for fiscal years ending June 30, 2019 of $0 (Implemented GASB 89) and June 30, 2018 of $266,959 was included in the cost of water system assets and is depreciated on the straight-line basis over the estimated useful lives of such assets.

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

Water System	15-70 Years
Field Equipment	2-50 Years
Buildings	30-50 Years
Communication Equipment	2-10 Years
Transportation Equipment	2-7 Years
Office Equipment	2-10 Years
Recycled Water System	50-75 Years
Sewer System	25-50 Years

I) Compensated Absences

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

June 30, 2019

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	$ 2,807,614	$ 1,637,194	$ 1,432,953	$ 3,011,855	$ 301,186

Current portion is reflected in accrued payroll liabilities and remainder in other non-current liabilities on the Statements of Net Position.

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

I) Compensated Absences - Continued

June 30, 2018

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	$ 2,733,700	$ 1,596,084	$ 1,522,170	$ 2,807,614	$ 280,761

Current portion is reflected in accrued payroll liabilities and remainder in other non-current liabilities on the Statements of Net Position.

J) Classification of Liabilities

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

K) Allowance for Doubtful Accounts

The District charges doubtful accounts arising from water sales receivable to bad debt expense when it is probable that the accounts will be uncollectible. Uncollectible accounts are determined by the allowance method based upon prior experience and management's assessment of the collectability of existing specific accounts. The allowance for doubtful accounts was $96,944 for 2019 and $223,005 for 2018.

L) Property Taxes

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

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

M) Pensions

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

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

N) Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

	2019	2018
Valuation Date	June 30, 2018	June 30, 2017
Measurement Date	June 30, 2018	June 30, 2017
Measurement Period	July 1, 2017 to June 30, 2018	July 1, 2016 to June 30, 2017

O) Use of Estimates

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

P) Reclassifications

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

2) CASH AND INVESTMENTS

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

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

	2019	2018
Statements of Net Position:		
Cash and Cash Equivalents	$ 34,024,168	$ 24,147,997
Restricted Cash and Cash Equivalents	19,114,137	80,477
Investments	18,951,991	30,866,180
Board Designated Investments	2,537,589	29,879,617
Restricted Investments	460,060	4,166,548
Total Cash and Investments	$ 75,087,945	$ 89,140,819

Cash and Investments consist of the following:

	2019	2018
Cash on Hand	$ 2,950	$ 2,950
Deposits with Financial Institutions	1,218,516	754,437
Investments	73,866,479	88,383,432
Total Cash and Investments	$ 75,087,945	$ 89,140,819

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

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

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

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

2) CASH AND INVESTMENTS - Continued

Investments Authorized by Debt Agreements

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

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations are provided by the following tables that show the distribution of the District's investments by maturity as of June 30, 2019 and 2018.

June 30, 2019

Investment Type		Remaining Maturity (in Months) 12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Government Sponsored Entities	$ 31,670,612	$ 27,673,372	$ 3,997,240	$ -	$ -
Local Agency Investment Fund (LAIF)	41,855,272	41,855,272	-	-	-
San Diego County Pool	281,000	281,000	-	-	-
Money Market Funds	59,595	59,595	-	-	-
Total	$ 73,866,479	$ 69,869,239	$ 3,997,240	$ -	$ -

June 30, 2018

Investment Type		Remaining Maturity (in Months) 12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Government Sponsored Entities	$ 64,967,885	$ 27,845,100	$ 27,313,861	$ 9,808,924	$ -
Local Agency Investment Fund (LAIF)	11,204,070	11,204,070	-	-	-
San Diego County Pool	12,131,000	12,131,000	-	-	-
Money Market Funds	80,477	80,477	-	-	-
Total	$ 88,383,432	$ 51,260,647	$ 27,313,861	$ 9,808,924	$ -

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's Investment Policy, or debt agreements, and the Moody's ratings as of June 30, 2019 and 2018.

June 30, 2019

Investment Type		Minimum Legal Rating	Rating as of Year End AAA	AA	A-1	Not Rated
U.S. Government Sponsored Entities	$ 31,670,612	N/A	$ 31,670,612	$ -	$ -	$ -
Local Agency Investment Fund (LAIF)	41,855,272	N/A	-	-	-	41,855,272
San Diego County Pool	281,000	N/A	-	-	-	281,000
Money Market Funds	59,595	N/A	-	-	59,595	-
Total	$ 73,866,479		$ 31,670,612	$ -	$ 59,595	$ 42,136,272

June 30, 2018

Investment Type		Minimum Legal Rating	Rating as of Year End AAA	AA	A-1	Not Rated
U.S. Government Sponsored Entities	$ 64,967,885	N/A	$ 64,967,885	$ -	$ -	$ -
Local Agency Investment Fund (LAIF)	11,204,070	N/A	-	-	-	11,204,070
San Diego County Pool	12,131,000	N/A	-	-	-	12,131,000
Money Market Funds	80,477	N/A	-	-	80,477	-
Total	$ 88,383,432		$ 64,967,885	$ -	$ 80,477	$ 23,335,070

Concentration of Credit Risk

The investment policy of the District contains various limitations on the amounts that can be invested in any one type or group of investments and in any issuer, beyond that stipulated by the California Government Code, Sections 53600 through 53692. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments as of June 30, 2019 and 2018:

June 30, 2019

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	U.S. Government Sponsored Entities	$ 5,986,340
Federal National Mortgage Association	U.S. Government Sponsored Entities	$ 19,689,152
Federal Farm Credit Banks	U.S. Government Sponsored Entities	$ 3,995,820

2) CASH AND INVESTMENTS - Continued

Concentration of Credit Risk - Continued

June 30, 2018

Issuer	Investment Type	Reported Amount	
Federal Home Loan Bank	U.S. Government Sponsored Entities	$	13,877,960
Federal Home Loan Mortgage Corp	U.S. Government Sponsored Entities	$	13,789,744
Federal National Mortgage Association	U.S. Government Sponsored Entities	$	23,423,521
Federal Farm Credit Banks	U.S. Government Sponsored Entities	$	11,890,740

Custodial Credit Risk

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

As of June 30, 2019, $1,570,995 and as of June 30, 2018, $555,267 of the District's deposits with financial institutions in excess of federal depository insurance limits, were held in collateralized accounts.

Local Agency Investment Fund (LAIF)

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

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The District may invest up to $65,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California. The yield of LAIF for the quarter ended June 30, 2019 was 2.57%. The estimated amortized cost and fair value of the LAIF pool at June 30, 2019 was $105,633,660,465 and $105,814,483,092. The District's share of the pool at June 30, 2019 was approximately 0.03955%. The yield of LAIF for the quarter ended June 30, 2018 was 1.90%. The estimated amortized cost and fair value of the LAIF pool at June 30, 2018 was $88,964,875,827 and $88,798,232,977. The District's share of the pool at June 30, 2018 was approximately 0.0126%.

2) CASH AND INVESTMENTS - Continued

San Diego County Pooled Fund

The San Diego County Pooled Investment Fund (SDCPIF) is a pooled investment fund program governed by the County of San Diego Board of Supervisors, and administered by the County of San Diego Treasurer and Tax Collector. Investments in SDCPIF are highly liquid as deposits and withdrawals can be made at anytime without penalty, determined on an amortized cash basis, the same as the fair value of the District's position in the pool.

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

Restricted Cash and Cash Equivalents

	2019	2018
Debt Service:		
Water Revenue Bond Series 2010A	$ 1,044,426	$ 22,024
Water Revenue Bond Series 2010B	2,743,521	58,453
Water Revenue Bond Series 2018	15,326,190	-
Total	$ 19,114,137	$ 80,477

Board Designated Investments

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

	2019	2018
New Water Supply	$ 2,537,589	$ 1,341,075
Replacement	-	28,538,542
Total	$ 2,537,589	$ 29,879,617

Restricted Investments

	2019	2018
Debt Service:		
General Obligation Bond ID No. 27-2009	$ 460,060	$ 487,087
Water Revenue Bond Series 2010A	-	1,014,684
Water Revenue Bond Series 2010B	-	2,664,777
Total	$ 460,060	$ 4,166,548

3) FAIR VALUE MEASUREMENTS

Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurements and Application, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value with Level 1 given the highest priority and Level 3 the lowest priority. The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within *Level 1* that are observable for the asset or liability, either directly or indirectly. *Level 2* inputs include the following:

a. Quoted prices for similar assets or liabilities in active markets.

b. Quoted prices for identical or similar assets or liabilities in markets that are not active.

c. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).

d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 inputs are unobservable inputs for the asset or liability.

Fair value of assets measured on a recurring basis at June 30, 2019 and 2018, are as follows:

June 30, 2019

	Fair Value	Significant Other Observable Inputs (Level 2)	Uncategorized
U.S. Government Sponsored Entities	$ 31,670,612	$ 31,670,612	$ -
Local Agency Investment Fund (LAIF)	41,855,272	-	41,855,272
San Diego County Pool	281,000	-	281,000
Money Market Funds	59,595	59,595	-
Total	$ 73,866,479	$ 31,730,207	$ 42,136,272

3) FAIR VALUE MEASUREMENTS - Continued

June 30, 2018

	Fair Value	Significant Other Observable Inputs (Level 2)	Uncategorized
U.S. Government Sponsored Entities	$ 64,967,885	$ 64,967,885	$ -
Local Agency Investment Fund (LAIF)	11,204,070	-	11,204,070
San Diego County Pool	12,131,000	-	12,131,000
Money Market Funds	80,477	80,477	-
Total	$ 88,383,432	$ 65,048,362	$ 23,335,070

Investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Uncategorized investments do not fall under the fair value hierarchy as there is no active market for the investments.

4) CAPITAL ASSETS

The following is a summary of changes in Capital Assets for the year ended June 30, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated:				
Land	$ 14,406,778	$ -	$ (2,955)	$ 14,403,823
Construction in Progress	17,618,059	22,707,240	(7,176,135)	33,149,164
Total Capital Assets, Not Depreciated	32,024,837	22,707,240	(7,179,090)	47,552,987
Capital Assets, Being Depreciated:				
Infrastructure	647,074,001	7,980,161	(2,988,133)	652,066,029
Field Equipment	8,518,901	803,018	(749,209)	8,572,710
Buildings	20,080,216	270,320	(1,107,797)	19,242,739
Transportation Equipment	3,429,304	338,220	(241,576)	3,525,948
Communication Equipment	3,514,315	101,878	(198,275)	3,417,918
Office Equipment	17,649,987	353,273	(1,221,689)	16,781,571
Total Capital Assets, Being Depreciated	700,266,724	9,846,870	(6,506,679)	703,606,915
Less Accumulated Depreciation:				
Infrastructure	243,900,677	14,960,831	(1,882,398)	256,979,110
Field Equipment	6,819,064	314,198	(747,520)	6,385,742
Buildings	9,505,939	516,862	(1,107,797)	8,915,004
Transportation Equipment	2,627,069	201,495	(240,561)	2,588,003
Communication Equipment	2,860,523	252,845	(198,275)	2,915,093
Office Equipment	15,727,726	561,566	(1,221,689)	15,067,603
Total Accumulated Depreciation	281,440,998	16,807,797	(5,398,240)	292,850,555
Total Capital Assets, Being Depreciated, Net	418,825,726	(6,960,927)	(1,108,439)	410,756,360
Total Capital Assets, Net	$ 450,850,563	$ 15,746,313	$ (8,287,529)	$ 458,309,347

Depreciation expense for the year ended June 30, 2019 was $16,807,797.

4) CAPITAL ASSETS - Continued

The following is a summary of changes in Capital Assets for the year ended June 30, 2018:

	Beginning Balance	Additions	Deletions	Adjustments[1]	Ending Balance
Capital Assets, Not Depreciated:					
Land	$ 14,389,187	$ -	$ -	$ 17,591	$ 14,406,778
Construction in Progress	14,201,511	19,344,410	(15,927,862)	-	17,618,059
Total Capital Assets, Not Depreciated	28,590,698	19,344,410	(15,927,862)	17,591	32,024,837
Capital Assets, Being Depreciated:					
Infrastructure	640,641,602	14,875,150	(9,312,310)	869,559	647,074,001
Field Equipment	8,988,620	60,471	(530,190)	-	8,518,901
Buildings	20,576,125	635,154	(243,913)	(887,150)	20,080,216
Transportation Equipment	3,286,998	278,472	(136,166)	-	3,429,304
Communication Equipment	3,371,041	155,636	(12,362)	-	3,514,315
Office Equipment	17,620,584	554,553	(525,150)	-	17,649,987
Total Capital Assets, Being Depreciated	694,484,970	16,559,436	(10,760,091)	(17,591)	700,266,724
Less Accumulated Depreciation:					
Infrastructure	235,280,822	15,735,932	(7,597,237)	481,160	243,900,677
Field Equipment	7,036,892	307,889	(525,717)	-	6,819,064
Buildings	9,596,983	509,171	(119,055)	(481,160)	9,505,939
Transportation Equipment	2,608,206	155,029	(136,166)	-	2,627,069
Communication Equipment	2,627,246	245,639	(12,362)	-	2,860,523
Office Equipment	15,728,569	512,658	(513,501)	-	15,727,726
Total Accumulated Depreciation	272,878,718	17,466,318	(8,904,038)	-	281,440,998
Total Capital Assets, Being Depreciated, Net	421,606,252	(906,882)	(1,856,053)	(17,591)	418,825,726
Total Capital Assets, Net	$ 450,196,950	$ 18,437,528	$ (17,783,915)	$ -	$ 450,850,563

[1] Adjustments are related to recategorization of capital assets during the fiscal year.

Depreciation expense for the year ended June 30, 2018 was $17,466,318.

5) LONG-TERM DEBT

Long-term liabilities for the year ended June 30, 2019 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds:					
Improvement District No. 27 – 2009	$ 3,390,000	$ -	$ 635,000	$ 2,755,000	$ 650,000
Unamortized Bond Premium	68,143	-	16,354	51,789	-
Net General Obligation Bonds	3,458,143	-	651,354	2,806,789	650,000
Certificates of Participation:					
1996 Certificates of Participation	7,600,000	-	7,600,000 (1)	-	-
1996 COPS Unamortized Discount	(6,707)	-	(6,707)	-	-
Net Certificates of Participation	7,593,293	-	7,593,293	-	-
Revenue Bonds:					
2010 Water Revenue Bonds Series A	7,880,000	-	975,000	6,905,000	1,015,000
2010 Water Revenue Bonds Series B	36,355,000	-	-	36,355,000	-
2013 Water Revenue Refunding Bonds	4,560,000	-	685,000	3,875,000	715,000
2016 Water Revenue Refunding Bonds	31,170,000	-	1,045,000	30,125,000	1,100,000
2018 Water Revenue Bonds	-	32,435,000	-	32,435,000	1,245,000
2010 Series A Unamortized Premium	465,009	-	74,400	390,609	-
2013 Bonds Unamortized Premium	496,493	-	96,097	400,396	-
2016 Bonds Unamortized Premium	3,244,048	-	178,572	3,065,476	-
2018 Bonds Unamortized Premium	-	2,710,512	72,765	2,637,747	-
Net Revenue Bonds	84,170,550	35,145,512	3,126,834	116,189,228	4,075,000
Total Long-Term Liabilities	$ 95,221,986	$ 35,145,512	$ 11,371,481	$ 118,996,017	$ 4,725,000

(1) This amount includes a bond refunding of $6,900,000.

5) LONG-TERM DEBT - Continued

Long-term liabilities for the year ended June 30, 2018 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds:					
Improvement District No. 27 – 2009	$ 3,995,000	$ -	$ 605,000	$ 3,390,000	$ 635,000
Unamortized Bond Premium	84,498	-	16,355	68,143	-
Net General Obligation Bonds	4,079,498	-	621,355	3,458,143	635,000
Certificates of Participation:					
1996 Certificates of Participation	8,200,000	-	600,000	7,600,000	700,000
1996 COPS Unamortized Discount	(7,452)	-	(745)	(6,707)	-
Net Certificates of Participation	8,192,548	-	599,255	7,593,293	700,000
Revenue Bonds:					
2010 Water Revenue Bonds Series A	8,820,000	-	940,000	7,880,000	975,000
2010 Water Revenue Bonds Series B	36,355,000	-	-	36,355,000	-
2013 Water Revenue Refunding Bonds	5,220,000	-	660,000	4,560,000	685,000
2016 Water Revenue Refunding Bonds	32,185,000	-	1,015,000	31,170,000	1,045,000
2010 Series A Unamortized Premium	539,411	-	74,402	465,009	-
2013 Bonds Unamortized Premium	592,588	-	96,095	496,493	-
2016 Bonds Unamortized Premium	3,422,619	-	178,571	3,244,048	-
Net Revenue Bonds	87,134,618	-	2,964,068	84,170,550	2,705,000
Total Long-Term Liabilities	$ 99,406,664	$ -	$ 4,184,678	$ 95,221,986	$ 4,040,000

General Obligation Bonds

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

5) LONG-TERM DEBT - Continued

General Obligation Bonds - Continued

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

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

Future debt service requirements for the bonds are as follows:

For the Year Ended June 30,	Principal	Interest
2020	$ 650,000	$ 97,200
2021	680,000	70,600
2022	705,000	42,900
2023	720,000	14,400
	$ 2,755,000	$ 225,100

Certificates of Participation (COPS)

In June 1996, COPS with face value of $15,400,000 were sold by the Otay Service Corporation to finance the cost of design, acquisition, and construction of certain capital improvements. An installment purchase agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS. The installment payments are to be paid from taxes and net revenues, as described in the installment agreement. The certificates bear interest at a variable weekly rate not to exceed 12%. The variable interest rate is tied to the 30-day LIBOR index and the Securities Industry and Financial Markets Association (SIFMA) index. An irrevocable letter of credit facility is necessary to market the District's variable rate debt. This facility is with Union Bank and covers the outstanding principal and interest. The facility expires on June 29, 2020. The installment payments are to be paid annually at $350,000 to $1,100,000 from September 1, 1996 through September 1, 2026. The interest rate at June 30, 2018 was 1.50% and during the 2019 fiscal year these COPS were advanced refunded.

The COPS debt issue contain various covenants and restrictions, principally that the District fix, prescribe, revise and collect rates, fees and charges for the Water System which will at lease sufficient to yield, during each fiscal year, taxes and net revenues equal to one hundred twenty-five percent (125%) of the debt service for such fiscal year. The District was in compliance with these rate covenants for the fiscal year ended June 30, 2019.

Certificate of Participation (COPS) Advanced Refunding

In November 2018, the District issued $32,435,000 in Water Revenue Bonds, Series 2018, with interest rates of 3% to 5% which a portion of the proceeds was used to advance refund $6,900,000 of the 1996 Certificates of Participation. Bond proceeds of $6,900,000 were used to advance refund the 1996 Certificates of Participation on November 1, 2018 to fully repay the obligation. The net savings and economic gain (loss) from this current advance refunding is unavailable due to the 1996 Certificates of Participation having a variable interest rate.

5) LONG-TERM DEBT - Continued

Water Revenue Bonds

In April 2010, Water Revenue Bonds with a face value of $50,195,000 were sold by the Otay Water District Financing Authority to provide funds for the construction of water storage and transmission facilities. The bond issue consisted of two series; Water Revenue Bonds, Series 2010A (Non-AMT Tax Exempt) with a face value of $13,840,000 plus a $1,078,824 original issue premium, and Water Revenue Bonds, Series 2010B (Taxable Build America Bonds) with a face value of $36,355,000. The Series 2010A bonds are due in annual installments of $785,000 to $1,295,000 from September 1, 2012 through September 1, 2025; bearing interest at 2% to 5.25%. The Series 2010B bonds are due in annual installments of $1,365,000 to $3,505,000 from September 1, 2026 through September 1, 2040; bearing interest at 6.377% to 6.577%.

Interest on both Series is payable on September 1, 2010 and semiannually thereafter on March 1st and September 1st of each year until maturity or earlier redemption. The installment payments are to be made from taxes and net revenues of the Water System as described in the installment purchase agreement, on parity with the payments required to be made by the District for the 1996 Certificates of Participation described above and the 2013 and 2016 Water Revenue Refunding Bonds described below.

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

The original issue premium is being amortized over the 14-year life of the Series 2010A bonds. Amortization for the year ending June 30, 2019 was $74,400 and for June 30, 2018 was $74,402. The amortizations are included in interest expense. The unamortized premium at June 30, 2019 is $390,609 and at June 30, 2018 is $465,009.

The 2010 Water Revenue Bonds contains various covenants and restrictions, principally that the District fix, prescribe, revise and collect rates, fees and charges for the Water System which will at least be sufficient to yield, during each fiscal year, taxes and net revenues equal to one hundred twenty-five percent (125%) of the debt service for such fiscal year. The District was in compliance with these rate covenants for the fiscal years ended June 30, 2019 and 2018.

In June 2013, the 2013 Water Revenue Refunding Bonds were issued to defease the 2004 Refunding Certificates of Participation. The bonds were issued with a face value of $7,735,000 plus a $984,975 original issue premium. The bonds are due in annual installments of $660,000 to $835,000 from September 1, 2013 through September 1, 2023; bearing interest at 1% to 4%. The installment payments are to be made from taxes and net revenues of the Water System, on parity with the payments required to be made by the District for the 1996 and 2016 Water Revenue Bonds and the 2010A and 2010B described above.

The original issue premium is being amortized over the 11 year life of the Series 2013 bonds. Amortization for the year ending June 30, 2019 was $96,097 and for June 30, 2018 was $96,095. The amortizations are included in interest expense. The unamortized premium at June 30, 2019 is $400,396 and at June 30, 2018 is $496,493.

In May 2016, Water Revenue Refunding Bonds were issued to defease the 2007 Revenue Certificates of Participation. The bonds are due in annual installments of $1,200,000 to $2,235,000 from September 1, 2016 through September 1, 2036; bearing interest of 2% to 5%. The bonds were issued with a face value of $33,385,000 plus $3,630,950 original issue premium. The savings between the cash flow required to service, the old debt and the cash flow required to service the new debt is $5,664,140 and represent an economic gain on refunding of $4,538,175.

5) LONG-TERM DEBT - Continued

Water Revenue Bonds - Continued

The original issue premium is being amortized over the 20 year life of the Series 2016 bonds. Amortization for the year ending June 30, 2019 was $178,572 and for June 30, 2018 was $178,571. The amortizations are included in interest expense. The unamortized premium at June 30, 2019 is $3,065,476 and at June 30, 2018 is $3,244,048.

In November 2018, Water Revenue Bonds were issued to provide funds for construction of water storage, treatment and transmission facilities and to refinance the 1996 Certificates of Participation. The bonds are due in annual installments of $775,000 to $1,915,000 from September 1, 2019 through September 1, 2043; bearing interest of 3% to 5%. The bonds were issued with a face value of $32,435,000 plus $2,710,512 original issue premium.

The original issue premium is being amortized over the 25 year life of the Series 2018 bonds. Amortization for the year ending June 30, 2019 was $72,765. The amortization expense is included in interest expense. The unamortized premium at June 30, 2019 is $2,637,747.

The total amount outstanding at June 30, 2019 and aggregate maturities of the revenue bonds for the fiscal years subsequent to June 30, 2019, are as follows:

For the Year Ended June 30,	2010 Water Revenue Bond Series A Principal	2010 Water Revenue Bond Series A Interest	2010 Water Revenue Bond Series B Principal	2010 Water Revenue Bond Series B Interest
2020	$ 1,015,000	$ 323,112	$ -	$ 2,371,868
2021	1,065,000	271,112	-	2,371,868
2022	1,120,000	216,488	-	2,371,868
2023	1,175,000	159,113	-	2,371,868
2024	1,235,000	98,862	-	2,371,868
2025-2029	1,295,000	33,994	6,000,000	11,123,436
2030-2034	-	-	9,925,000	8,425,226
2035-2039	-	-	13,635,000	4,590,581
2040-2041	-	-	6,795,000	453,977
	$ 6,905,000	$ 1,102,681	$ 36,355,000	$ 36,452,560

For the Year Ended June 30,	2013 Water Revenue Refunding Bonds Principal	2013 Water Revenue Refunding Bonds Interest	2016 Water Revenue Refunding Bonds Principal	2016 Water Revenue Refunding Bonds Interest	2018 Water Revenue Refunding Bonds Principal	2018 Water Revenue Refunding Bonds Interest
2020	$ 715,000	$ 140,700	$ 1,100,000	$ 1,119,831	$ 1,245,000	$ 1,424,913
2021	745,000	111,500	1,155,000	1,063,456	1,310,000	1,361,038
2022	775,000	81,100	1,215,000	1,004,206	1,370,000	1,294,038
2023	805,000	49,500	1,285,000	941,706	1,455,000	1,223,413
2024	835,000	16,700	1,350,000	875,831	1,650,000	1,145,787
2025-2029	-	-	7,845,000	3,300,031	7,575,000	4,471,312
2030-2034	-	-	9,655,000	1,611,809	6,220,000	2,935,237
2035-2039	-	-	6,520,000	286,219	6,550,000	1,596,500
2040-2044	-	-	-	-	5,060,000	450,331
	$ 3,875,000	$ 399,500	$ 30,125,000	$ 10,203,089	$ 32,435,000	$ 15,902,569

5) LONG-TERM DEBT - Continued

Revenues Pledged

The District has pledged a portion of future water sales revenues to repay its Water Revenue Bonds and Certificates of Participation. Total principal and interest remaining on the water revenue bonds and certificates of participation is $173,755,399 payable through fiscal year 2044. For June 30, 2019, principal and interest paid by the water sales revenues were $3,405,000 and $4,593,173, respectively. For June 30, 2018, principal and interest paid by the water sales revenues were $3,215,000 and $4,268,091, respectively.

6) NET POSITION

Designations of Net Position

In addition to the restricted net position, a portion of unrestricted net position, have been designated by the Board of Directors for the following purposes as of June 30, 2019 and 2018:

	2019	2018
Designated Betterment	$ 2,204,313	$ 2,293,440
Replacement Reserve	18,650,150	20,510,569
Designated Expansion	7,155	-
Designated New Supply Fund	406,545	325,645
Employee Benefits Reserve	276,168	262,404
Total	$ 21,544,331	$ 23,392,058

7) DEFINED BENEFIT PENSION PLAN

A) General Information about the Pension Plans

Plan Descriptions

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service.

7) DEFINED BENEFIT PENSION PLAN - Continued

A) General Information about the Pension Plans - Continued

***Benefits Provided* - Continued**

The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2019 and 2018 are summarized as follows:

Hire Date	Prior to January 1, 2013	On or After January 1, 2013
Benefit Formula	2.7% at 55	2% at 62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	50 – 55+	52 – 67+
Monthly Benefits, as a % of Eligible Compensation	2.0% to 2.7%	1.0% to 2.5%
Required Employee Contribution Rates (2019 and 2018)	8%	6.25%
Required Employer Contribution Rates		
2019	37.436%	37.436%
2018	34.246%	34.246%

Employees Covered

The following employees were covered by the benefit terms for the Plan:

	2019	2018
Inactive Employees or Beneficiaries Currently Receiving Benefits	183	175
Inactive Employees Entitled to But Not Yet Receiving Benefits	131	140
Active Employees	133	134
Total	447	449

Contributions

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

7) DEFINED BENEFIT PENSION PLAN - Continued

B) Net Pension Liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2018 and 2017, using the annual actuarial valuations as of June 30, 2018 and 2017, respectively, rolled forward to June 30, 2018 and 2017, respectively, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below:

Actuarial Assumptions

The total pension liabilities in the June 30, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions:

	2019	2018
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.5%	2.75%
Salaries Increases	Varies(1)	Varies(1)
Mortality Rate Table	CalPERS Membership Data(2)	CalPERS Membership Data(4)
Post Retirement Benefit Increase	See Footnote(3)	See Footnote(5)

(1) Depending on age, service and type of employment.

(2) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERs website.

(3) Contract COLA up to 2% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter.

(4) The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

(5) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

All other actuarial assumptions used in the valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at www.calpers.ca.gov under Forms and Publications.

7) DEFINED BENEFIT PENSION PLAN - Continued

B) Net Pension Liability - Continued

Change of Assumptions

In the June 30, 2017 valuation, the accounting discount rate was reduced from 7.65 percent to 7.15 percent.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2018 and 2017 measurement dates was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called “GASB 68 Crossover Testing Report” that can be obtained from the CalPERS website.

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

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

The following table reflects the long-term expected real rate of return by asset class.

7) DEFINED BENEFIT PENSION PLAN - Continued

B) Net Pension Liability - Continued

Discount Rate **- Continued**

Asset Class[a]	Assumed Asset Allocation		Real Return Years 1 - 10[b]		Real Return Years 11+[c]	
	2018	2017	2018	2017	2018	2017
Global Equity	50.0%	47.0%	4.80%	4.90%	5.98%	5.38%
Global Fixed Income	28.0%	19.0%	1.00%	0.80%	2.62%	2.27%
Inflation Assets/Sensitive	-	6.0%	0.77%	0.60%	1.81%	1.39%
Private Equity	8.0%	12.0%	6.30%	6.60%	7.23%	6.63%
Real Estate	13.0%	11.0%	3.75%	2.80%	4.93%	5.21%
Infrasture and Forestland	-	3.0%	-	3.90%	-	5.36%
Liquidity	1.0%	2.0%	-	-0.40%	-0.92%	-0.90%
Total	100%	100%				

[a] In the System's CAFR, Fixed Income in included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
[b] An expected inflation of 2.00% used for this period.
[c] An expected inflation of 2.92% used for this period.

C) Changes in the Net Pension Liability

The changes in the Net Pension Liability for the Plan for June 30, 2019:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Beginning Balance	$ 130,809,611	$ 81,227,295	$ 49,582,316
Changes in the Year:			
Service Cost	2,528,271	-	2,528,271
Interest on the Total Pension Liability	9,168,092	-	9,168,092
Changes in Benefit Terms	-	-	-
Changes in Assumptions	(1,312,634)	-	(1,312,634)
Differences Between Actual and Expected Experience	461,917	-	461,917
Net Plan to Plan Resource Movement	-	(203)	203
Contributions - Employer	-	4,441,517	(4,441,517)
Contributions - Employees	-	1,015,008	(1,015,008)
Net Investment Income	-	6,949,676	(6,949,676)
Benefit Payments, Including Refunds of Employee Contributions	(5,995,949)	(5,995,949)	-
Administrative Expense	-	(126,575)	126,575
Other Miscellaneous Income/(Expense)	-	(240,367)	240,367
Net Changes	4,849,697	6,043,107	(1,193,410)
Ending Balance	$ 135,659,308	$ 87,270,402	$ 48,388,906

7) DEFINED BENEFIT PENSION PLAN - Continued

C) Changes in the Net Pension Liability - Continued

The changes in the Net Pension Liability for the Plan for June 30, 2018:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Beginning Balance	$ 119,095,572	$ 73,846,128	$ 45,249,444
Changes in the Year:			
Service Cost	2,556,902	-	2,556,902
Interest on the Total Pension Liability	8,836,284	-	8,836,284
Changes in Benefit Terms	-	-	-
Changes in Assumptions	7,308,486	-	7,308,486
Differences Between Actual and Expected Experience	(1,208,593)	-	(1,208,593)
Contributions - Employer	-	4,105,810	(4,105,810)
Contributions - Employees	-	1,014,329	(1,014,329)
Net Investment Income	-	8,149,097	(8,149,097)
Benefit Payments, Including Refunds of Employee Contributions	(5,779,040)	(5,779,040)	-
Administrative Expense	-	(109,029)	109,029
Net Changes	11,714,039	7,381,167	4,332,872
Ending Balance	$ 130,809,611	$ 81,227,295	$ 49,582,316

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

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

	2019	2018
1% Decrease	6.15%	6.15%
Net Pension Liability	$ 66,284,590	$ 67,205,545
Current Discount Rate	7.15%	7.15%
Net Pension Liability	$ 48,388,906	$ 49,582,316
1% Increase	8.15%	8.15%
Net Pension Liability	$ 33,516,191	$ 34,980,142

Pension Plan Fiduciary Net Position

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

7) DEFINED BENEFIT PENSION PLAN - Continued

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

For the years ended June 30, 2019 and 2018, the District recognized pension expense of $6,855,984 and $6,413,616. At June 30, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following services:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2019	2018	2019	2018
Pension contributions subsequent to measurement date	$ 36,665,042	$ 4,452,147	$ -	$ -
Differences between actual and expected experience	296,947	-	(313,339)	(936,234)
Changes in assumptions	1,894,792	4,601,639	(843,836)	-
Net difference between projected and actual earnings on pension plan investments	166,037	1,132,443	-	-
Total	$ 39,022,818	$ 10,186,229	$ (1,157,175)	$ (936,234)

$36,665,042 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Those contributions include a $31,800,000 additional payment to reduce the District's unfunded pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Deferred Outflow/(Inflows) of Resources
2019	$ 2,286,620
2020	(20,789)
2021	(825,349)
2022	(239,881)
2023	-
Thereafter	-

E) Payable to the Pension Plan

At June 30, 2019 and 2018, the District reported a payable of $44,905 and $88,989, respectively, for the outstanding amount of contributions to the pension plan required for the years ended June 30, 2019 and 2018. These payables are reflected in the accrued payroll liabilities on the Statements of Net Position.

8) OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

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

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

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

Employees Covered

As of June 30, 2018 and 2017 actuarial valuations, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	131
Inactive employees or beneficiaries currently receiving benefits	79
Inactive employees entitled to, but not yet receiving benefits	-
Total	210

Contributions

The annual contribution is based on the actuarially determined contribution. For the fiscal years ended June 30, 2019 and 2018, the District's cash contributions were $2,049,038 and $2,054,208, respectively, in payments to the trust and the estimated implied subsidy was $160,536 and $147,796, respectively, resulting in total payments of $2,209,574 and $2,202,004, respectively.

8) OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018 and 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by actuarial valuations dated June 30, 2018 and 2017 based on the following actuarial methods and assumptions:

Actuarial Assumptions	
Discount Rate	7.00%
Inflation	2.75%
Salary Increases	3.0% plus merit
Investment Rate of Return	7.00%
Mortality Rate[1]	Derived using CalPERS Membership Data for all funds
Pre-Retirement Turnover[2]	Derived using CalPERS Membership Data for all funds
Healthcare Trend Rate	6.00% HMO/6.50% PPO decreasing to 5.00% HMO/5.00% PPO

Notes:

[1] Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be access on the CalPERS website www.calpers.ca.gov under Forms and Publications.

[2] The pre-retirement turnover information was developed based on CalPERS specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset are summarized in the following table for the June 30, 2018 and 2017 actuarial valuations:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	57.0%	5.5%
REITs	8.0%	3.65%
Global Fixed Income	27.0%	2.35%
Commodities	3.0%	1.75%
TIPS	5.0%	1.50%
Total	100%	

8) OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00% for the June 30, 2018 and 2017 actuarial valuations. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projects benefit payments to determine the total OPEB liability.

Changes in the OPEB Liability

The changes in the net OPEB liability for the Plan are as follows:

June 30, 2019	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2018			
(Valuation Date June 30, 2017)	$ 26,449,527	$ 21,739,035	$ 4,710,492
Changes Recognized for the Measurement Period:			
Service Cost	735,655	-	735,655
Interest	1,864,967	-	1,864,967
Changes of Assumptions	-	-	-
Contributions - Employer	-	2,202,004	(2,202,004)
Net Investment Income	-	1,734,626	(1,734,626)
Benefit Payments	(1,085,586)	(1,085,586)	-
Administrative Expenses	-	(11,784)	11,784
Other Expenses	-	(28,757)	28,757
Net Changes	1,515,036	2,810,503	(1,295,467)
Balance at June 30, 2019			
(Measurement Date June 30, 2018)	$ 27,964,563	$ 24,549,538	$ 3,415,025

8) OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

***Changes in the OPEB Liability* - Continued**

June 30, 2018	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2017 *(Valuation Date June 30, 2016)*	$ 25,037,076	$ 18,492,217	$ 6,544,859
Changes Recognized for the Measurement Period:			
Service Cost	687,528	-	687,528
Interest	1,764,343	-	1,764,343
Changes of Assumptions	-	-	-
Contributions - Employer	-	2,284,420	(2,284,420)
Net Investment Income	-	2,011,985	(2,011,985)
Benefit Payments	(1,039,420)	(1,039,420)	-
Administrative Expense	-	(10,167)	10,167
Net Changes	1,412,451	3,246,818	(1,834,367)
Balance at June 30, 2018 *(Measurement Date June 30, 2017)*	$ 26,449,527	$ 21,739,035	$ 4,710,492

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

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement periods ended June 30, 2018 and 2017:

	2019 (2018 Measurement Period)	2018 (2017 Measurement Period)
1% Decrease Net OPEB Liability	$ 7,750,569	$ 8,830,538
Current Discount Rate Net OPEB Liability	$ 3,415,025	$ 4,710,492
1% Increase Net OPEB Liability	$ 195,486	$ 1,378,817

8) OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement periods ended June 30, 2018 and 2017:

	1% Decrease (5.00% HMO/5.50% PPO Decreasing to 4.00% HMO/4.00% PPO)	Current Healthcare Cost Trend Rates (6.00% HMO/6.5% PPO Decreasing to 5.00% HMO/5.00% PPO)	1% Increase (7.00% HMO/7.50% PPO Decreasing to 6.00% HMO/6.00% PPO)
2019 Net OPEB Liability (Asset) *(2018 Measurement Period)*	$ (550,596)	$ 3,415,025	$ 8,456,194
2018 Net OPEB Liability *(2017 Measurement Period)*	$ 1,158,335	$ 4,710,492	$ 9,214,495

OPEB Plan Fiduciary Net Position

CERBT issues a publicly available financial report that may be obtained from the California Public Employees Retirement System Executive Office, 400 P Street, Sacramento, California 95814.

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	Expected average remaining service lifetime (EARSL)

8) OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal years ended June 30, 2019 and 2018, the District recognized OPEB expense of $(177,250) and $(39,299), respectively. As of fiscal years ended June 30, 2019 and 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2019	2018	2019	2018
OPEB contributions subsequent to measurement date	$ 2,209,574	$ 2,202,004	$ -	$ -
Changes in assumptions	-	-	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	-	(544,777)	(539,449)
Total	$ 2,209,574	$ 2,202,004	$ (544,777)	$ (539,449)

The $2,209,574 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Year Ended June 30,	Deferred Outflow/(Inflows) of Resources
2020	$ 169,910
2021	169,910
2022	169,911
2023	35,046
2024	-
Thereafter	-

9) WATER CONSERVATION AUTHORITY

In 1999, the District formed the Water Conservation Garden Authority (the "Authority"), a Joint Powers Authority, with other local entities to construct, maintain and operate a xeriscape demonstration garden in the furtherance of water conservation. The authority is a non-profit public charity organization and is exempt from income taxes. During the years ended June 30, 2019 and 2018, the District contributed $118,040 and $123,050, respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

9) WATER CONSERVATION AUTHORITY - Continued

A summary of the Authority's June 30, 2018 audited financial statement is as follows (latest report available):

Assets	$ 1,230,627
Liabilities	34,000
Net Position	$ 1,196,627
Revenues, Gains and Other Support	$ 540,783
Expenses	594,203
Changes in Net Position	$ (53,420)

10) COMMITMENTS AND CONTINGENCIES

Construction Commitments

The District had committed to capital projects under construction with an estimated cost to complete of $2,245,835 and $21,974,525 at June 30, 2019 and 2018, respectively.

Litigation

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

Refundable Terminal Storage Fees

The District has entered into an agreement with several developers whereby the developers prepaid the terminal storage fee in order to provide the District with the funds necessary to build additional storage capacity. The agreement further allows the developers to relinquish all or a portion of such water storage capacity. If the District grants to another property owner the relinquished storage capacity, the District shall refund to the applicable developer $746 per equivalent dwelling unit (EDU). There were 17,867 EDUs that were subject to this agreement. At June 30, 2019, 1,750 EDUs had been relinquished and refunded, 15,143 EDUs had been connected, and 974 EDUs have neither been relinquished nor connected. At June 30, 2018, 1,750 EDUs had been relinquished and refunded, 15,086 EDUs had been connected, and 1,031 EDUs have neither been relinquished nor connected.

Developer Agreements

The District has entered into various Developer Agreements with developers towards the expansion of District facilities. The developers agree to make certain improvements and after the completion of the projects the District agrees to reimburse such improvements with a maximum reimbursement amount for each developer. Contractually, the District does not incur a liability for the work until the work is accepted by the District. As of June 30, 2019 and 2018, none of the outstanding developer agreements had been accepted.

11) RISK MANAGEMENT

General Liability

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. Beginning in July 2003, the District began participation in an insurance pool through the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. The District pays an annual premium for commercial insurance covering general liability, excess liability, property, automobile, public employee dishonesty, and various other claims. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "I" Street, Suite 300, Sacramento, CA 95814.

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

- $25,000 per occurrence for third party general liability property damage;
- $1,000 per occurrence for third party auto liability property damage;
- 50% co-insurance of cost expended by SDRMA, in excess of $10,000 up to $50,000, per occurrence, as respects any employment practices claim or suit arising in whole or any part out of any action involving discipline, demotion, reassignment or termination of any employee of the member.

Employee Dishonesty Coverage: Total of $1,000,000 per loss includes Public Employee Dishonesty, Forgery or Alteration and Theft, Disappearance and Destruction coverage's effective July 1, 2017 and 2018.

Property Loss: Replacement cost, for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of $1 billion per occurrence, subject to a $1,000 deductible per occurrence, effective July 1, 2017 and 2018.

Boiler and Machinery: Replacement cost up to $100 million per occurrence, subject to a $1,000 deductible, effective July 1, 2017 and 2018.

Public Officials Personal Liability: $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage's, deductible of $1,000 per occurrence, effective July 1, 2017 and 2018.

Comprehensive and Collision: On selected vehicles, with deductibles of $250/$500 or $500/$1,000, as elected; ACV limits; fully self-funded by SDRMA; Policy No. LCA - SDRMA – 2017-18 and 2018-19, effective July 1, 2017 and 2018.

Workers' Compensation Coverage and Employer's Liability: Statutory limits per occurrence for Workers' Compensation and $5.0 million for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, effective July 1, 2017 and 2018.

11) RISK MANAGEMENT - Continued

General Liability - Continued

Cyber Coverage: $2,000,000 Annual Aggregate Limit of Liability for each Insured/Member for Information Security & Privacy Liability. Policy includes at $25,000 deductible per claim.

Health Insurance

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

Adequacy of Protection

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

12) INTEREST EXPENSE

Interest expense for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Amount Expensed	$ 4,713,883	$ 3,941,321
Amount Capitalized as a Cost of Construction Projects	-	266,959
Total Interest	$ 4,713,883	$ 4,208,280

13) SEGMENT INFORMATION

The District has issued Water Revenue Bonds in previous fiscal years to finance certain capital improvements. While water and wastewater services are accounted for jointly in these financial statements, the investors in the Water Revenue Bonds rely solely on the revenues of the water services for repayment.

13) SEGMENT INFORMATION - Continued

Summary financial information for the water and wastewater services is presented for June 30, 2019 and 2018:

Condensed Statements of Net Position
June 30, 2019 and 2018

	Water Services		Wastewater Services	
	2019	2018	2019	2018
ASSETS				
Cash and Investments	$ 72,508,971	$ 83,936,096	$ 2,578,974	$ 5,204,723
Accounts Receivable, Net	11,577,454	11,937,362	210,500	172,016
Other Current Asset	2,801,868	2,346,388	34,300	34,300
Capital Assets	428,856,190	425,858,728	29,453,157	24,991,835
Total Assets	515,744,483	524,078,574	32,276,931	30,402,874
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Actuarial Pension Costs	36,957,507	9,760,597	2,065,311	425,632
Deferred Actuarial OPEB Costs	2,105,670	2,098,510	103,904	103,494
Total Deferred Outflows of Resources	39,063,177	11,859,107	2,169,215	529,126
LIABILITIES				
Accounts Payable	13,882,636	14,537,105	179,188	900,460
Other Miscellaneous Liabilities	5,515,011	4,345,073	643,495	439,426
Other Current Liabilities	10,324,292	9,038,907	-	-
General Obligation Bonds	2,156,789	2,823,143	-	-
Certificates of Participation	-	6,893,293	-	-
Revenue Bonds	112,114,228	81,465,550	-	-
Net Pension Liability	46,167,836	47,296,682	2,221,070	2,285,634
Net OPEB Liability	3,263,717	4,489,099	151,308	221,393
Other Non-current Liabilities	3,337,674	3,117,705	-	-
Total Liabilities	196,762,183	174,006,557	3,195,061	3,846,913
DEFERRED INFLOWS OF RESOURCES				
Deferred Actuarial Pension Costs	1,125,287	916,299	31,888	19,935
Deferred Actuarial OPEB Costs	519,135	514,095	25,642	25,354
Total Deferred Inflows of Resources	1,644,422	1,430,394	57,530	45,289
NET POSITION				
Net Investment in Capital Assets	325,186,363	330,636,742	29,453,157	24,991,835
Restricted for Debt Service	4,248,007	4,247,025	-	-
Unrestricted	26,966,685	25,616,963	1,740,398	2,047,963
Total Net Position	$ 356,401,055	$ 360,500,730	$ 31,193,555	$ 27,039,798

13) SEGMENT INFORMATION - Continued

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2019 and 2018

	Water Services		Wastewater Services	
	2019	2018	2019	2018
Operating Revenues				
Water Sales	$ 86,756,222	$ 92,595,195	$ -	$ -
Wastewater Revenue	-	-	2,961,157	2,865,520
Connection and Other Fees	2,222,393	2,009,084	12,394	3,973
Total Operating Revenues	88,978,615	94,604,279	2,973,551	2,869,493
Operating Expenses				
Cost of Water Sales	60,065,964	62,321,213	-	-
Wastewater	-	-	2,784,579	2,501,240
Administrative and General	24,070,648	23,445,578	-	-
Depreciation	15,973,877	16,462,306	833,920	1,004,012
Total Operating Expenses	100,110,489	102,229,097	3,618,499	3,505,252
Operating Income (Loss)	(11,131,874)	(7,624,818)	(644,948)	(635,759)
Non-operating Revenues (Expenses)				
Investment Earnings	1,845,805	656,472	132,587	67,388
Taxes and Assessments	4,671,182	4,480,930	-	789
Availability Charges	671,428	646,323	51,818	51,401
Gain (Loss) on Sale of Capital Assets	(1,030,346)	(1,527,679)	(28,225)	(181,859)
Rents and Leases	1,384,211	1,439,247	-	-
Miscellaneous Revenues	2,407,989	2,255,605	392,624	-
Donations	(118,040)	(123,050)	-	-
Interest Expense	(4,713,883)	(3,941,321)	-	-
Miscellaneous Expenses	(3,288,540)	(893,623)	(4,515)	(6,624)
Total Non-operating Revenues (Expenses)	1,829,806	2,992,904	544,289	(68,905)
Income (Loss) Before Capital Contributions and Transfers	(9,302,068)	(4,631,914)	(100,659)	(704,664)
Capital Contributions	9,416,804	9,469,083	40,005	37,109
Transfers In (Out)	(4,214,411)	-	4,214,411	-
Change in Net Position	(4,099,675)	4,837,169	4,153,757	(667,555)
Total Net Position, Beginning, As Previously Reported	360,500,730	372,812,297	27,039,798	28,374,692
Prior Period Adjustment	-	(17,148,736)	-	(667,339)
Total Net Position, Beginning , As Restated	360,500,730	355,663,561	27,039,798	27,707,353
Total Net Position, Ending	$ 356,401,055	$ 360,500,730	$ 31,193,555	$ 27,039,798

13) SEGMENT INFORMATION - Continued

Condensed Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	Water Services		Wastewater Services	
	2019	2018	2019	2018
Net Cash Provided/(Used) by:				
Operating Activities	$ (23,286,064)	$ 15,788,039	$ (1,741,104)	$ 940,132
Non-capital and Related Financing Activities	474,682	4,495,002	4,214,411	-
Capital and Related Financing Activities	9,584,026	(16,598,410)	(5,231,644)	(1,007,520)
Investing Activities	42,137,187	3,065,764	2,758,337	67,388
Net Increase (Decrease) in Cash and Cash Equivalents	28,909,831	6,750,395	-	-
Cash and Cash Equivalents, Beginning	24,228,474	17,478,079	-	-
Cash and Cash Equivalents, Ending	$ 53,138,305	$ 24,228,474	$ -	$ -

14) PRIOR PERIOD ADJUSTMENT

In the fiscal year 2018, the prior period adjustment of $17,816,075 relates to the implementation of GASB Statement 75 for postemployment benefits other than pensions. According to GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which was implemented by the District in the 2018 fiscal year, recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB plan.

REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2019 and 2018

Schedule of Changes in the Net OPEB Liability and Related Ratios for Measurement Periods Ended June 30,

Measurement Period	2018	2017
Total OPEB Liability		
Service Cost	$ 735,655	$ 687,528
Interest on the Total OPEB Liability	1,864,967	1,764,343
Actual and Expected Experience Difference	-	-
Changes in Assumptions	-	-
Changes in Benefit Terms	-	-
Benefit Payments	(1,085,586)	(1,039,420)
Net Change in Total OPEB Liability	**1,515,036**	**1,412,451**
Total OPEB Liability - Beginning	**26,449,527**	**25,037,076**
Total OPEB Liability - Ending (a)	**$ 27,964,563**	**$ 26,449,527**
Plan Fiduciary Net Position		
Contributions - Employer	$ 2,202,004	$ 2,284,420
Net Investment Income	1,734,626	2,011,985
Benefit Payments	(1,085,586)	(1,039,420)
Administrative Expenses	(11,784)	(10,167)
Other Expenses	(28,757)	-
Net Change in Plan Fiduciary Net Position	**2,810,503**	**3,246,818**
Plan Fiduciary Net Position - Beginning	**21,739,035**	**18,492,217**
Plan Fiduciary Net Position - Ending (b)	**$ 24,549,538**	**$ 21,739,035**
Net OPEB Liability - Ending (a)-(b)	**$ 3,415,025**	**$ 4,710,492**
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	87.8%	82.2%
Covered Payroll	$ 12,969,485	$ 12,513,000
Net OPEB Liability as a Percentage of Covered-employee Payroll	26.3%	37.6%

Notes to Schedule:

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available. Contributions are determined by an actuarial valuation based on eligible participants' estimated medical and dental benefits.

Schedule of Contributions
Last Ten Fiscal Years'

Fiscal Year Ended June 30,	2019	2018
Actuarially Determined Contribution (ADC)	$ 1,065,019	$ 1,116,418
Contributions in Relation to the ADC	(2,209,574)	(2,202,004)
Contribution Deficiency (Excess)	$ (1,144,555)	$ (1,085,586)
Covered-Employee Payroll	$ 13,092,319	$ 12,969,485
Contributions as a percentage of covered-employee payroll	16.88%	16.98%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2019 were from the June 30, 2018 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over a closed rolling 15-year period
Asset Valuation Method	Market value
Inflation	2.75%
Payroll Growth	3.00% plus merit
Investment Rate of Return	7.00% per annum
Healthcare Cost-trend Rates	6.00% HMO/6.5% PPO decreasing to 5.00% HMO/5.00% PPO
Retirement Age	Tier 1 employees - 2.7% at 55 and Tier 2 employees - 2.0% at 62. The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Pre-retirement mortality probability based on 2014 CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.

Historical information is required only for measurement periods for which GASB 75 is applicable.
Future years' information will be displayed up to 10 years as information become available.
Contributions are determined by an actuarial valuation based on eligible participants' medical and dental benefits.

Schedule of Changes in the Net Pension Liability and Related Ratios
Last 10 Years[1]

Measurement Period[2]	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
TOTAL PENSION LIABILITY					
Service Cost	$ 2,528,271	$ 2,556,902	$ 2,298,617	$ 2,250,860	$ 2,330,709
Interest	9,168,092	8,836,284	8,575,275	8,229,312	7,907,915
Changes of Benefit Terms	-	-	-	-	-
Changes of Assumptions	(1,312,634)	7,308,486	-	(1,996,819)	-
Difference Between Expected and Actual Experience	461,917	(1,208,593)	(613,440)	(981,200)	-
Benefit Payments, Including Refunds of Employee Contributions	(5,995,949)	(5,779,040)	(5,448,218)	(5,288,251)	(4,885,406)
Net Change in Total Pension Liability	4,849,697	11,714,039	4,812,234	2,213,902	5,353,218
Total Pension Liability - Beginning	130,809,611	119,095,572	114,283,338	112,069,436	106,716,218
Total Pension Liability - Ending (a)	$ 135,659,308	$ 130,809,611	$ 119,095,572	$ 114,283,338	$ 112,069,436
PLAN FIDUCIARY NET POSITION					
Net Plan to Plan Resource Movement	$ (203)	$ -	$ -	$ -	$ -
Contributions - Employer	4,441,517	4,105,810	3,819,770	3,557,098	3,137,174
Contributions - Employee	1,015,008	1,014,329	1,010,337	1,007,023	1,074,954
Net Investment Income	6,949,676	8,149,097	369,214	1,601,760	10,874,999
Benefit Payments, Including Refunds of Employee Contributions	(5,995,949)	(5,779,040)	(5,448,218)	(5,288,251)	(4,885,406)
Administrative Expense	(126,575)	(109,029)	(45,185)	(83,511)	-
Other Changes in Fiduciary Net Position	(240,367)	-	-	-	-
Net Change in Fiduciary Net Position	6,043,107	7,381,167	(294,082)	794,119	10,201,721
Plan Fiduciary Net Position - Beginning	81,227,295	73,846,128	74,140,210	73,346,091	63,144,370
Plan Fiduciary Net Position - Ending (b)	$ 87,270,402	$ 81,227,295	$ 73,846,128	$ 74,140,210	$ 73,346,091
Plan Net Pension Liability/(Asset) - Ending (a) - (b)	$ 48,388,906	$ 49,582,316	$ 45,249,444	$ 40,143,128	$ 38,723,345
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.33%	62.10%	62.01%	64.87%	65.45%
Covered Payroll	$ 12,969,485	$ 12,829,415	$ 12,767,963	$ 12,451,513	$ 12,276,578
Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll	373.10%	386.47%	354.40%	322.40%	315.42%

[1] Measurement period 2017-18 (fiscal year 2018-2019) was the fifth year of implementation; therefore, only five years are shown.
[2] Historical information is required only for measurement periods for which GASB 68 is applicable

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2016. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: For the 2019 and 2017 fiscal years, there were no changes. For the 2018 fiscal year, the accounting discount rate reduced from 7.65% to 7.15%. For the 2016 fiscal year, amounts reported reflect an adjustment the discount rate of 7.5% (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5% discount rate.

Schedule of Plan Contributions[1]

	Fiscal Year 2018-2019	Fiscal Year 2017-18	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contribution[2]	$ 4,865,042	$ 4,452,147	$ 4,105,810	$ 3,819,770	$ 3,557,098
Contributions in Relation to the Actuarially Determined Contribution[2]	(36,665,042)	(4,452,147)	(4,105,810)	(3,819,770)	(3,557,098)
Contribution Deficiency (Excess)	$ (31,800,000)	$ -	$ -	$ -	$ -
Covered Payroll[3]	$ 13,092,319	$ 12,969,485	$ 12,829,415	$ 12,767,963	$ 12,451,513
Contributions as a Percentage of Covered Payroll[3]	280.05%	34.33%	32.00%	29.92%	28.57%

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

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

[3] Includes one year's payroll growth using 3.00% payroll assumption.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018-19 were from the June 30, 2016 public agency valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details see June 30, 2016 Funding Valuation Report
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2016 Funding Valuation Report
Discount Rate	7.375%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

ECONOMIC PROFILE FOR THE COUNTY OF SAN DIEGO

Introduction

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the size of the State of Connecticut.

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence.

The County is also growing as a major center for culture and education. A number of recognized art organizations, including the San Diego Opera, the Old Globe Theater productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County. Higher education is provided through five two-year colleges and six four-year colleges and universities.

The San Diego Convention Center contains 361,000 square feet of exhibit space and over 100,000 square feet of meeting/banquet rooms. The Convention Center can accommodate events for 30,000-40,000 people.

[Remainder of Page Intentionally Left Blank]

Population

The following table shows the January 1 State of California Department of Finance estimates of total population in the County of San Diego and the State of California for each year since 2010, and the increase from the previous year.

TABLE NO. C-1
COUNTY OF SAN DIEGO AND STATE OF CALIFORNIA
POPULATION

	COUNTY OF SAN DIEGO		STATE OF CALIFORNIA	
January 1 Year	Population	Percentage Change	Population	Percentage Change
2010	3,091,579		37,223,900	1.0%
2011	3,125,264	1.1%	37,594,781	1.0%
2012	3,161,750	1.2%	37,971,427	0.9%
2013	3,201,417	1.3%	38,321,459	0.8%
2014	3,235,142	1.1%	38,622,301	0.9%
2015	3,267,992	1.0%	38,952,462	0.7%
2016	3,287,279	0.6%	39,214,803	0.7%
2017	3,309,626	0.7%	39,504,609	0.6%
2018	3,333,128	0.7%	39,740,508	0.5%
2019	3,351,786	0.6%	39,927,315	
% Increase Between 2010 - 2019		8.4%		7.3%

Source: *State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties, and the State, 2001-2010, with 2000 & 2010 Census Counts"* Sacramento, California, November 2012 and *"E-4 Population Estimates for Cities, Counties and the State, 2011-2019, with 2010 Census Benchmark"* Sacramento, California, May 2019.

[Remainder of Page Intentionally Left Blank]

Per Capita Personal Income

Per capita personal income information for San Diego County, the State of California and the United States are summarized in the following table.

TABLE NO. C-2
PER CAPITA PERSONAL INCOME [1]
SAN DIEGO COUNTY, STATE OF CALIFORNIA AND UNITED STATES
2013 – 2017

Year	San Diego County	State of California	United States
2013	$49,460	$49,173	$44,826
2014	52,166	52,237	47,025
2015	54,742	55,679	48,940
2016	56,116	57,497	49,831
2017	57,913	59,796	51,640

(1) For San Diego County, State of California and United States, per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2010-2017 reflect county population estimates available as of March 2018.

Note: All dollar estimates are in current dollars (not adjusted for inflation).

Last updated: March 6, 2019.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

[Remainder of Page Intentionally Left Blank]

The District is located in the San Diego-Carlsbad Metropolitan Statistical Area (MSA). The August 2019 unemployment rate in the San Diego-Carlsbad MSA was 3.4%. The State of California August 2019 unemployment rate (unadjusted) was 4.2%.

TABLE NO. C-3
SAN DIEGO-CARLSBAD MSA
WAGE AND SALARY WORKERS BY INDUSTRY [(1)]
(in $ thousands)

Industry	2015	2016	2017	2018	2019
Government	226.9	234.3	233.7	234.9	243.3
Other Services	54.3	55.2	55.7	55.9	57.0
Leisure and Hospitality	189.1	197.5	202.1	206.6	208.1
Educational and Health Services	191.6	196.5	203.0	211.5	215.8
Professional and Business Services	231.6	236.3	240.5	250.8	257.4
Financial Activities	72.0	73.8	75.2	76.4	75.3
Information	24.0	24.0	24.1	24.0	23.8
Transportation, Warehousing and Utilities	28.8	30.2	32.1	33.6	34.1
Service Producing					
Retail Trade	146.2	146.9	148.0	147.5	144.9
Wholesale Trade	44.0	43.5	43.9	43.9	43.1
Manufacturing					
Nondurable Goods	26.7	27.5	28.2	28.7	28.7
Durable Goods	81.2	81.1	82.3	84.7	88.7
Goods Producing					
Construction	72.7	78.3	80.8	86.4	92.1
Mining and Logging	0.3	0.3	0.3	0.4	0.4
Total Nonfarm	1,389.4	1,425.4	1,449.9	1,485.3	1,512.7
Farm	9.3	9.2	8.9	9.9	9.1
Total (all industries)	1,398.7	1,434.6	1,458.8	1,495.2	1,521.8

(1) Annually, as of August.

Note: The unemployment rate is calculated using unrounded data. Data may not add due to rounding.

Source: State of California Employment Development Department, Labor Market Information Division, "*Industry Employment & Labor Force - by month March 2018 Benchmark.*"

[Remainder of Page Intentionally Left Blank]

Major Employers

The major employers operating within the County as of June 30, 2018 are shown in Table No. C-4.

TABLE NO. C-4
COUNTY OF SAN DIEGO
MAJOR EMPLOYERS

Employer	Number of Employees	Percent of Total Employment
University of California, San Diego	34,448	2.26%
Naval Base San Diego	34,185	2.24%
Sharp Healthcare	18,364	1.20%
County of San Diego	17,413	1.14%
Scripps Health	14,941	0.98%
San Diego Unified School District	13,815	0.91%
Qualcomm Inc.	11,800	0.77%
City of San Diego	11,462	0.75%
Kaiser Permanente San Diego Medical Center	9,606	0.63%
UC San Diego Health	8,932	0.59%
	174,966	11.47%

Source: County of San Diego Comprehensive Annual Financial Report.

Transportation

Interstate 5 parallels the coast of San Diego County, starting at the border with Mexico and traveling to the Los Angeles area and points north. Interstate 15 runs inland through the County, leading to Riverside-San Bernardino, Las Vegas and Salt Lake City. Interstate 8 runs eastward providing access to the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of downtown San Diego at the edge of the San Diego Bay. The facilities are owned and maintained by the San Diego Unified Port District and are leased to commercial airlines and other tenants. The airport is the third most active commercial airport in California, served by most major airlines. In addition to San Diego International Airport, there are two naval air stations and seven general aviation airports located in the County.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego with stops at Del Mar and Oceanside in the north county. San Diego's harbor is one of the world's largest natural harbors. The harbor, a busy commercial port, also serves cruise ships. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach and Coronado.

[Remainder of Page Intentionally Left Blank]

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated December 1, 2019 (the "Disclosure Agreement") is executed and delivered by the Otay Water District (the "District") and Harrell & Company Advisors, LLC (the "Dissemination Agent") in connection with the issuance of $3,120,000 Otay Water District Financing Authority 2019 Wastewater Revenue Bonds (the "Bonds") by the Otay Water District Financing Authority (the "Authority"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2019 (the "Indenture"), by and between MUFG Union Bank, N.A., as trustee (the "Trustee") and the Authority. The District covenants as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean the Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Disclosure Representative" shall mean the General Manager of the District and the Chief Financial Officer of the District, or their designee, or such other officer or employee as the District shall designate in writing from time to time.

"Dissemination Agent" shall mean Harrell & Company Advisors, LLC, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB.

"Holder" shall mean the registered owner of any Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated November 19, 2019.

"Participating Underwriter" shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean the EMMA system of the MSRB or any other entity designated under the Rule as the repository for filings made pursuant to the Rule.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or, upon delivery of the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, not later than March 31 of each year, commencing March 31, 2020, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report shall be provided to the Repository in an electronic format as prescribed by the Repository and shall be accompanied by identifying information as prescribed by the Repository. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. The filing requirement with respect to the initial Annual Report that is due by March 31, 2020 shall be satisfied by filing the Official Statement on EMMA. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than five (5) business days prior to the date specified in subsection (a) for providing the Annual Report to the Repository, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repository an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository that the Annual Report has not been delivered by the District.

(c) The Dissemination Agent shall:

(i) confirm the electronic filing requirements of the Repository for the Annual Reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the Repository.

(d) Notwithstanding any other provision of this Disclosure Agreement, all filings shall be made in accordance with the MSRB's EMMA system, or in another manner approved under the Rule.

SECTION 4. Content of Annual Reports. The Annual Reports shall contain or include by reference the following:

(a) The District's audited financial statements for the previous fiscal year, prepared in accordance with generally accepted auditing standards for special districts in the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 4 hereof, updates of Table Nos. 1, 2, 3, 6, 7 and 9 under the caption "THE WASTEWATER SYSTEM."

(c) Amounts, if any, held in the Rate Stabilization Fund as of June 30 of the preceding fiscal year, together with amounts, if any, deposited to or transferred from the Rate Stabilization Fund in the preceding fiscal year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the District or other obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving the District or an obligated person, or the sale of all or substantially all of the assets of the District or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(15) Incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material.

(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties.

(b) The District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsection (a)(8) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14) and (a)(15) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the District obtains knowledge of the occurrence of any of these Listed Events, the District will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the District will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Agreement, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

(e) The term financial obligation means a (1) debt obligation; (2) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (3) guarantee of (e)(1) or (e)(2). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the District pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days written notice to the District. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the District and shall have no duty to review any information provided to it by the District. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the District in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(d), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of such Holder's or Beneficial Owner's status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's, its officers', directors', employees' and agents' negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, the Holders, or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

District:	Otay Water District 2554 Sweetwater Springs Boulevard Spring Valley, CA 91978 Attention: General Manager
Dissemination Agent:	Harrell & Company Advisors, LLC 333 City Boulevard West, Suite 1215 Orange, CA 92868 Attention: Suzanne Harrell

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the District to the undertaking herein provided.

OTAY WATER DISTRICT

By: ______________________________
Chief Financial Officer

HARRELL & COMPANY ADVISORS, LLC, as Dissemination Agent

By: ______________________________
Authorized Officer

[Remainder of Page Intentionally Left Blank]

APPENDIX E

FORM OF BOND COUNSEL OPINION

[Closing Date]

Otay Water District Financing Authority
Spring Valley, California

Otay Water District
Spring Valley, California

Re: Otay Water District Financing Authority 2019 Wastewater Revenue Bonds

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Otay Water District Financing Authority (the "Authority") of $3,120,000 in aggregate principal amount of the Otay Water District Financing Authority 2019 Wastewater Revenue Bonds (the "Bonds"). The Bonds are being issued pursuant to the laws of the State of California, including Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6500 (the "Law"), resolutions duly adopted by the Authority and Otay Water District (the "District") on November 6, 2019 (together, the "Resolutions"), an Installment Sale Agreement, dated as of December 1, 2019 (the "Installment Sale Agreement"), between the Authority, as seller, and District, as purchaser, and an Indenture of Trust, dated as of December 1, 2019 (the "Indenture"), between the Authority and MUFG Union Bank, N.A., as trustee (the "Trustee").

In our capacity as Bond Counsel we have reviewed the Law, the Resolutions, the Installment Sale Agreement, the Indenture, certificates of the Authority, the District, the Trustee and others, an opinion of Artiano Shinoff as counsel to the Authority and the District, the Tax Certificate of the Authority and the District, dated the date hereof (the "Tax Certificate") and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings assigned thereto in the Indenture.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof.

We call attention to the fact that the rights and obligations under the Indenture and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding limited obligations of the Authority and are payable solely from Revenues and certain other amounts held under the Indenture.

2. The Indenture has been duly authorized, executed and delivered by, and constitutes a valid and binding obligation of, the Authority. The Indenture creates a valid lien on the Revenues and certain other amounts held by the Trustee under the Indenture, as and to the extent set forth in the Indenture and subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The Installment Sale Agreement has been duly authorized, executed and delivered by, and constitutes a valid and binding obligation of, the Authority and the District. The Installment Sale Agreement creates a valid lien on the Net Revenues and certain other amounts pledged by the Installment Sale Agreement for the security of the Installment Payments.

4. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that, for federal income tax purposes, interest on the Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the Bonds, restrictions on the investment of proceeds of the Bonds prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause interest on the Bonds to become subject to federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the Bonds, the Authority and the District will execute a Tax Certificate relating to the Bonds containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Authority and the District covenant that they will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that the interest paid on the Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinion in this paragraph 4, we have relied upon and assumed (i) the material accuracy of the Authority's and the District's representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the Bonds, and (ii) compliance by the Authority and the District with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

5. Under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated in paragraphs 4 and 5 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Bonds.

Respectfully submitted,

[Remainder of Page Intentionally Left Blank]

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

THE BOOK-ENTRY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of

AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on such Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds and distributions on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject

to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

[Remainder of Page Intentionally Left Blank]