THE CITY OF SAN DIEGO
Water Utility

2002

Annual Financial Report

Successes Lay Foundation for Future

THE CITY OF SAN DIEGO

Water Utility

2002 Annual Financial Report

Fiscal Year Ended June 30, 2002

Office of the City Auditor
and Comptroller
Ed Ryan
City Auditor and Comptroller

THE CITY OF SAN DIEGO

The City of San Diego
Mayor and City Council Members

Dick Murphy Mayor	
Scott Peters Councilmember	District 1
Byron Wear Councilmember	District 2
Toni Atkins Councilmember	District 3
George Stevens Councilman	District 4
Brian Maienschein Councilmember	District 5
Donna Frye Councilmember	District 6
Jim Madaffer Councilmember	District 7
Ralph Inzunza Councilmember	District 8

City Officials

Michael T. Uberuaga
City Manager

Ed Ryan
Auditor and Comptroller

Mary Vattimo
Treasurer

Casey Gwinn
City Attorney

George I. Loveland
Deputy City Manager

Richard Mendes
Utilities General Manager

Charles Abdelnour
City Clerk

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Letter from the Director

It was the great philosopher George Santayana who first wrote, "Those who do not remember the past are condemned to repeat it." It's an interesting quote meant as a warning to those charging blindly into the future without thinking of what came before. It's obviously deep with meaning and is as relevant today as it was decades ago when Santayana first wrote it. However, at the City of San Diego Water Department, we're putting a new twist on this old adage.

We're constantly remembering the past in order that we can repeat it. For more than 100 years the Water Department has delivered safe, healthful drinking water to the citizens of San Diego. Our record of continuous service with absolutely no drinking water violations is one that is virtually unmatched. How many businesses in the world can make the claim that for more than a century they've continuously met their most important goal? We're proud to say that we have.

To continue to serve our customers so well takes a lot of hard work and strategic planning. Not only do we need to make sure that somebody turning a tap today gets safe, clean water, we need to be mindful of that person's child who may be turning that same tap in 25 years. They'll need healthful water as well, and the decisions we're making today are ensuring that future generations will have a safe, potable water supply.

When making decisions that impact the future, we're constantly examining our past. There are so many lessons to be learned from those who came before us that if we ignored them we'd be doing a tremendous disservice to ourselves and to our customers. San Diegans have been fortunate to have had 100 years of dedicated Water Department employees serving them and our city. Their successes offer excellent lessons for the future.

On the following pages you'll get a peek at the history of the City of San Diego Water Department, our commitment to learning from and celebrating the past, and a glimpse of what lies ahead. While we agree with Santayana's warning about the pitfalls of ignoring history, when you have a history as accomplished as ours, you'd be foolish not to learn from and celebrate it. After all, when we turn the tap on today and clean drinking water flows out, it's because 25 years ago somebody at the Water Department was doing a great job of planning for 2002.

Larry Gardner
Water Department Director

Successes Lay Foundation for Future

For any venture to have long-term success there must be some forward-thinking and creative individuals involved. One of the biggest success stories in San Diego's history is the City of San Diego Water Department. Those who deserve the credit for laying the foundation for this success are those who created it: San Diegans.

It must have been a tough decision in 1901 to spend valuable City dollars to buy out undependable private water companies and form a municipal Water Department. One can imagine that as turn-of-the-century San Diegans entered voting booths on April 20, 1901, there was some trepidation as to whether or not forming a municipal department to deliver water would lessen the frustrations caused by the unreliability of water purveyors. It surely wasn't an easy decision, but by a comfortable margin San Diegans sagely voted to create what is now known as the City of San Diego Water Department.

These types of intelligent decisions, based on what's good for the future of San Diego, have occurred time after time during the more than 100-year history of the Water Department. Today, the City of San Diego boasts one of the largest and most complex water storage treatment and delivery systems in the world, incorporating more than 3,000 miles of pipeline and serving more than 1.2 million people in a service area of 403 square miles. The Water Department prides itself on its commitment to deliver safe and reliable drinking water. Evidence of this commitment is found in the fact that we have never received a single water quality violation from the California Department of Health Services.

It's all speculation, but it's interesting to consider where we'd be as a city if past Water Department officials, as well as the citizens of San Diego, hadn't constantly made the right decisions regarding water and the future of water in San Diego. It's easy to look back now and see that the decisions made during the past century were the right ones, but at the time these decisions must have caused a lot of anxiety.

Obviously, San Diego's water future got off on the right foot thanks to that 1901 vote. Reliability and strategic planning replaced the old era of private companies hustling water for a quick buck. The Water Department moved quickly to help satisfy

1850
California becomes a state and the City of San Diego is incorporated.

1873
San Diego Water Company forms to provide an organized water supply to serve a population of approximately 2,000. Water is 25-cents per bucket. An army private makes $13 per month.

1885
Sewer service begins along the lower portion of 5th and 6th Avenues with the raw effluent discharged directly into San Diego Bay.

1887
Old Town Reservoir built to store water from 12 wells located in the San Diego River bed adjacent to the old Presidio.

1889
The San Diego Flume Company completes a 35.6 mile wooden flume to carry water from Boulder Creek to La Mesa Reservoir (the duck pond at Grossmont Summit).

the water needs of its citizens and by 1906 the Bonita Pipeline was built connecting the Lower Otay water supply to Chollas Heights Reservoir where the City's filtration plant was constructed. Water from the new plant was then put into an ever-expanding distribution system.

It soon became obvious that simply distributing water wasn't going to meet the city's demands much longer. Several ideas were brought forth including the questionable one of hiring a rainmaker named Charles M. Hatfield. Apparently he worked his magic so well that beginning on January 15, 1916, it rained for 15 straight days. The runoff from these storms caused some of the worst flooding in the area's history.

The dalliance with rainmakers quickly passed and, after much study, officials determined the prudent path was to build storage dams. Thus began San Diego's era of buying and building dams. The City had already purchased the Morena Dam in 1914, and construction of Lower Otay Dam, now known as Savage Dam, was finished in 1918. That same year Lake Hodges Dam and the San Dieguito Dam were built. Both were soon purchased by the City.

In 1928 construction of what is now Sutherland Dam commenced. For many reasons, some political, others because the building of the dam was especially tricky due to the site, construction was abandoned. The dam wasn't completed until 1954. In 1935 the City completed the El Capitan Dam and the El Capitan Pipeline, which connected the reservoir to the City's water supply system. A year later, with the reservoirs providing the city's drinking water, the water wells in Mission Valley were decommissioned. The wells, which were once the sole provider of water to the citizens, were no longer being used.

Obviously, the decision to build dams was a good one and continues to pay off for the citizens of San Diego. Not only do the dams hold our vital drinking water supply, they offer a myriad of recreational opportunities. Begun in 1913, the City of San Diego City Lakes Program is one of the oldest, largest and most innovative city recreational programs in America.

1897
Lower Otay Dam completed by what becomes the Southern California Mountain Water Company. Construction of Morena Dam begun. Work is soon suspended.

1901
Following a vote of the people, the City of San Diego enters into the municipal water supply business by purchasing the facilities of the San Diego Water Company.

1906
The Lower Otay water supply is connected to the City's distribution system by the Bonita Pipeline to a filtration plant located at Chollas Heights Reservoir.

1912
The City purchases the Otay River-Cottonwood Creek system from the Southern California Mountain Water Company. Morena Dam completed. The City of East San Diego incorporated.

1914
The City purchases Morena Dam.

1916
A series of very heavy rain storms, in conjunction with the alleged rainmaking activities of Charles Hatfield, hit the county. The San Diego River floods Mission Valley from cliff to cliff cutting all highways to the north. Lower Otay Dam, built without a spillway, tops out and bursts, flooding the Otay Valley.

In the early 1940s, due to World War II, the population of San Diego exploded. With the wartime population boom came the harsh realization that in order to keep up with growth the area needed imported water. In 1944 the San Diego County Water Authority was organized with the purpose of importing and distributing Colorado River water. At the time imported water was reaching Los Angeles but not San Diego. In an emergency measure signed by President Franklin D. Roosevelt, a committee was formed to find a way to get water from the Colorado River to a San Diego County bursting at the seams with military personnel. An estimated 430,700 people lived in San Diego County then, far more than local water supplies could keep up with.

An aqueduct was built to carry water from the Metropolitan Water District's Colorado River Aqueduct 71 miles south to the new San Vicente Reservoir. The new aqueduct was completed in 1947, and San Diego now had access to Colorado River water.

It would have been understandable if after the war officials quit planning so diligently. After all, we had imported water and plenty of storage reservoirs. Luckily for us, however, they could see the need for even more water and a better local water system. Construction soon began on the Alvarado Filtration Plant, located adjacent to Lake Murray. Today, more than 50 years after the plant was brought on-line, Alvarado continues to deliver clean and safe water to half a million San Diegans a day. Recently, the American Water Works Association recognized the Alvarado Plant as an *American Water Landmark*. This award recognizes qualified facilities at least 50 years old that have had a direct and significant relationship with water's supply, treatment, distribution, or technological development. The award reads, "The Alvarado Water Treatment Plant has been the heart of the

1918

Reconstruction completed on the Lower Otay Dam, now renamed Savage Dam. Lake Hodges Dam and San Dieguito Dam completed by the Santa Fe Land & Improvement Co. Both were later purchased by the City.

1922

City forces complete Barrett Dam and the Dulzura Conduit. Both are built to link Morena Reservoir and the Cottonwood Creek/Pine Creek watersheds with the City's water supply system at Lower Otay.

1935

The City completes construction of El Capitan Dam and the El Capitan Pipeline connecting it to the City's water supply system. University Heights Filtration Plant enlarged.

City of San Diego's drinking water system for the City and the surrounding community."

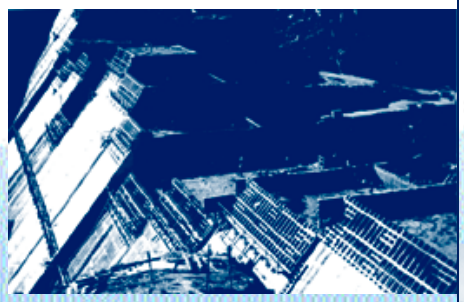
In 1951 the Alvarado Treatment Plant was big news, as were plans, ideas and schemes for bringing water from Northern California to Southern California. In 1956, a new Department of Water Resources was formed and a serious study undertaken to build a system that would include an aqueduct to carry Bay Delta water to the south. However, arguments over the location of the aqueduct and who would pay for it led politicians in Sacramento to mothball the project. But, in 1958 newly elected Gov. Pat Brown got the ball rolling once again and a Proposition was put on the ballot asking Californians to approve the selling of bonds to build the California Aqueduct. Despite Gov. Brown's stumping for the Proposition there was a lot of opposition from those who felt the project, which would be one of the most ambitious engineering undertakings ever, would never work. In fact, the *San Francisco Chronicle* labeled the whole thing a hoax.

The bond election of 1960 was a cliffhanger. A total of 5.8 million Californians went to the polls and at one point the bond measure was trailing by 200,000 votes. But then the San Diego County ballots came in with a yes vote of 4-to-1. Thanks to all the support from San Diego, the Proposition won by more than 173,000 votes. Once again, the voters of San Diego had positively changed the course of water history.

The building of what became known as the State Water Project was an awesome task. Plans called for the construction of 23 dams and reservoirs, 22 pumping plants, six power plants, 473 miles of canals, 175 miles of pipelines and 20 miles of tunnels. It took more than a decade to complete but in April,1972, just in time to temper the effects of another drought, water from the State Water Project arrived in Southern California. Since then the City of San Diego has been receiving a blend of water from the Colorado River and, thanks to the State Water Project, the Sierras in Northern California.

1936

The City decommissions water wells operated in Mission Valley.

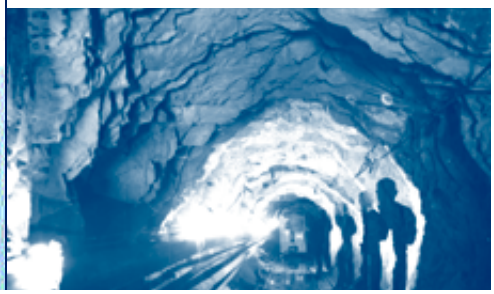


1943

San Vicente Dam and pipeline are dedicated following two years of construction. This provides another source of water for San Diego's booming wartime population. The U.S. Navy completes the City's first sewerage treatment plant in an effort to reduce the health risks to sailors on ships in San Diego Bay.

1947

The first imported water from the Colorado River flows into San Vicente Reservoir. This ends San Diego's total dependence on local sources for water.



All during the century the City of San Diego Water Department was instrumental in forming the critical water decisions that have shaped our present and will shape our future. But as our predecessors never rested, neither do we. The Water Department is constantly looking ahead to find solutions to future water problems before the problems become critical. There is no one answer, one silver bullet, that will solve our future water problems. It will most certainly have to be a combination of ideas.

One important aspect the Water Department is working hard on is decreasing our need for imported water. Created in 1985, the award-winning Water Conservation Program is actively educating the public on ways to conserve water. Water conservation educational information is distributed via the media, special events, community fairs and elementary school visits. In addition, information is presented to civic and social groups through our speaker's bureau and with a click of the mouse, via our web pages at www.sandiego.gov/water.

Recognizing that water in San Diego is too precious a resource to use just once, two water recycling plants are now up and running providing a safe, dependable non-potable water supply. At full capacity, the North City Water Reclamation Plant will be able to produce 30 million gallons of recycled water a day, and the South Bay Reclamation Plant, which is still undergoing testing, will eventually produce up to 15 million gallons per day.

The Water Department's Capital Improvements Program has formulated an ambitious and vital plan for the future of

1950

The City of San Diego takes over operation of Murray Reservoir and commissions the Alvarado Filtration Plant. The water treatment plants at University Heights and Chollas Heights are decommissioned.

1954

Sutherland Dam, dormant since 1928, is completed and connected by pipeline and natural streambeds to San Vicente Reservoir.

1960

Miramar Dam is completed and the Miramar Filtration Plant is put into commission. Lake Murray purchased from Helix Irrigation District.

1963

The Water Department's Point Loma Wastewater Treatment Plant is put into service ending regular direct discharge of raw wastewater into the San Diego Bay and the Pacific Ocean. What is now Rancho Bernardo, Rancho Penasquitos and the San Pasqual Valley is annexed to the City.

1996 and 1997

The wastewater collection and treatment functions are separated from the Water Utilities Department forming the Metropolitan Wastewater Department. The Water Utilities Department becomes the Water Department.

San Diego. By 2008, approximately $900 million will have been spent to enlarge, upgrade, rehabilitate and, seismically retrofit virtually every aspect of the City's storage, treatment and delivery systems. It's this kind of commitment by Water Department and City officials, as well as the citizens of San Diego, that future generations will point to as a critical decision that shaped their future.

There are countless other decisions now being made which will affect the future. Where will tomorrow's water supplies come from? Certainly desalination (turning sea water into drinking water) will be something that will be considered. Also, the Water Department is exploring the idea of using groundwater and has embarked on a groundwater asset development program. And what else lies just over the horizon?

Many new challenges face the City of San Diego Water Department, and other water purveyors in the United States. There are new rules and regulations being passed every day and if you're not moving ahead, you're falling behind. At the City of San Diego Water Department we're not afraid to work hard and take some risks in order to accomplish our goals. It's something we've been doing for more than 100 years.

1998

The Water Department creates the Capital Improvements Program to help solve a number of pressing problems related to the City's water treatment and delivery system. Funding of the CIP is through a water revenue plan, including an initial rate increase to support the recommended infrastructure improvements, and the selling of bonds. For the Water Department, it was the first issuance of bonds in more than 30 years. The City of San Diego sells $383 million in water bonds in just one day. The rate on the bonds is 5.09 percent, the lowest rate on a City transaction in decades. The low interest rate and the fact that the bonds sell in one day demonstrates the confidence the business community and investors has in the City of San Diego, the Water Department and its Capital Improvements

2000

The rehabilitations and improvements of the Point Loma Reservoir and the Soledad Reservoir are completed. These are the first of many upgrades to the water system brought about by the Capital Improvements Program. The total cost of the two projects is just about $6 million.

2002

Nearly $287 million worth of water bonds are sold. Combined with a new water rate package the sale of the bonds helps finance future capital improvements including the upgrade and expansions of the three water treatment plants.

2002

The Mid-City Pipeline is completed. Another important part of the Capital Improvements Program, this pipeline can deliver up to 43 million gallons of water a day and greatly enhances service to a large portion of San Diego.

2008

Completion of the upgrades and expansion of the three water treatment plants. The Otay Water Treatment Plant project costs an estimated $44 million and increases capacity from 34 to 40 million gallons a day. The Miramar Water Treatment Plant project costs an estimated $135 million and increases capacity from 140 to 215 million gallons of water a day. The Alvarado Water Treatment Plant project costs an estimated $152 million and increases capacity from 120 to 150 million gallons a day.

THE CITY OF SAN DIEGO

Water Utility

2002 Annual Financial Report

Financial Data

Office of the City Auditor
and Comptroller
Ed Ryan
City Auditor and Comptroller

THE CITY OF SAN DIEGO

THE CITY OF SAN DIEGO

November 27, 2002

Honorable Mayor,
City Council, and City Manager
City of San Diego, California

The Annual Financial Report of the City of San Diego Water Utility for the fiscal year ended June 30, 2002, is submitted in compliance with Charter provisions. I believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the Water Utility; and that all disclosures necessary to enable the reader to gain maximum understanding of the Water Utility financial affairs have been included.

The financial statements have been prepared from accounting records that satisfy accounting principles generally accepted in the United States of America, applicable legal requirements, and although the City is not subject to the Public Utilities Regulatory Commission, substantially in conformance with accounting principles and methods prescribed by such Commission.

I wish to express my appreciation to the Mayor, members of the City Council, the City Manager and my staff for their interest and support in planning and conducting the financial operations of the Water Utility in a responsible and progressive manner.

Respectfully submitted,

Ed Ryan
City Auditor and Comptroller

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, City Council
and City Manager of the
City of San Diego, California

We have audited the accompanying financial statements of the City of San Diego Water Utility as of June 30, 2002 and 2001 and for the years then ended, listed as Exhibits A, B and C in the foregoing table of contents. These financial statements are the responsibility of the City of San Diego management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note 1 to the financial statements, the financial statements referred to above present only the Water Department Enterprise fund of the City of San Diego and are not intended to present the financial position of the City of San Diego and results of its operations and the cash flows of its proprietary and similar trust fund types, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the City of San Diego Water Utility at June 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2002 on our consideration of the City of San Diego's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in accordance with this report in considering the results of our audit.

As described in Note 1 to the basic financial statements, the Water Utility adopted Statements of the Governmental Accounting Standards Board No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments; No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and, No. 38, Certain Financial Statement Note Disclosures.

The scope of our audits did not include the supplemental information listed as Exhibits D, E & F, Schedules and Tables listed in the foregoing table of contents. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

November 27, 2002

Calderon, Jaham & Osborn

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Water Utility of the City of San Diego (Water Utility), we offer readers of the Water Utility financial statements this narrative overview and analysis of the financial activities of the Water Utility for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on page 13 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements distinguish functions of the Water Utility that are principally supported by sales of water and are intended to recover all or a significant portion of their costs through user fees and charges. The financial statements include the Independent Auditors' Report, Management's Discussion and Analysis and basic financial statements with accompanying notes. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 24 of this report.

Water Utility adopted Government Accounting Standard Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments;" GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus;" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures," on July 1, 2001. The adoption had little effect on the basic financial statements except for the inclusion of a Management's Discussion and Analysis (MD&A) providing analysis of the Water Utility's overall financial position and results of operations. Also, retained earnings are now referred to as net assets and the statements of cash flows are presented using the direct method.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Water Utility report information about the Water Utility using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The **Statement of Net Assets** presents information on all of the Water Utility's assets and liabilities, with the difference between the two reported as net assets for the years ended June 30, 2002 and 2001. They also provide information about the nature and amounts of investments in resources (assets), the obligations to the Water Utility's creditors (liabilities), provide the basis for computing rates of return, and assessing the liquidity and financial flexibility of the Water Utility.

The **Statement of Revenues, Expenses and Changes in Net Assets** presents information, showing changes in the Water Utility's net assets for the years ended June 30, 2002 and 2001. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This statement reflects the results of the Water Utility's operations over the years identified and can be used to determine the Water Utility's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The **Statement of Cash Flows** is required to provide information about the Water Utility's cash receipts and cash payments during the years ended June 30, 2002 and 2001. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities; and provides answers to questions of where cash came from, what cash was used for and what the changes in cash were for the reporting periods covered.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Water Utility, assets exceeded liabilities by $979,905,315 at the close of the most recent fiscal year.

WATER UTILITY OF THE CITY OF SAN DIEGO'S NET ASSETS

	2002	2001
Current and Other Assets	$ 347,762,474	$ 443,465,285
Capital Assets	1,080,713,650	950,702,693
Total Assets	1,428,476,124	1,394,167,978
Long-term Liabilities	371,165,000	378,220,000
Other Liablities	77,405,809	65,802,087
Total Liabilities	448,570,809	444,022,087
Net Assets:		
Invested in Capital Assets, Net of Related Debt	702,493,650	651,208,880
Restricted for Debt Service	3,678,227	5,704,685
Unrestricted	273,733,438	293,232,326
Total Net Assets	$ 979,905,315	$ 950,145,891

A large portion of the Water Utility's net assets (72 percent) reflects its investment in capital assets (e.g., land and equipment), less any related debt used to acquire those assets that is still outstanding. The Water Utility uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Utility's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Water Utility's net assets (1 percent) represents resources that are subject to external restrictions on how they may be used.

Water Utility Activities

Water Utility net assets increased by $29,759,424. Key elements of this increase are as follows:

WATER UTILITY OF THE CITY OF SAN DIEGO'S CHANGES IN NET ASSETS

	2002	2001
Revenues:		
Operating Revenues		
Sales of Water	$ 198,065,060	$ 193,772,844
Recreation	1,303,921	1,272,055
Fire Services and Back Flow Device Maintenance	1,968,329	1,933,590
Rent from Use of Facilities	3,653,655	3,441,577
Customer Service Charges	821,192	409,593
Storage and Transportation of Water from Other Agencies	381,361	208,774
Other Operating Grants	538,530	905,070
Miscellaneous	15,780,049	10,346,475
General Revenues		
Interest Income	11,882,943	28,067,341
Gain on Sale/Retirement of Fixed Assets	130,111	747,308
Sale of Gravel, Land, etc	6,082	23,940
Non-Operating Grants	200,881	1,272,454
Total Revenues	234,732,114	242,401,021
Expenses:		
Cost of Purchased Water Used	97,311,568	103,322,108
Division of Water Operations	67,230,801	66,050,761
Division of Capital Improvements Program Management	8,486,778	8,475,186
Accounting and Services	7,002,388	7,388,769
General and Adminstrative	29,979,419	25,075,113
Taxes	1,181,239	1,060,651
Depreciation and Amortization	12,624,432	12,528,800
Interest Expense	18,487,877	18,722,024
Financing Costs Under Installment Purchase Agreement	306,615	306,615
Other	200,881	1,267,913
Total Expenses	242,811,998	244,197,940
Decrease in Net Assets Before Transfers	(8,079,884)	(1,796,919)
Capital Contributions	38,825,052	34,515,052
Transfers	(985,744)	(1,415,966)
Change in Net Assets	29,759,424	31,302,167
Net Assets - July 1, 2001, as Restated	950,145,891	918,843,724
Net Assets - June 30, 2002	$ 979,905,315	$ 950,145,891

FINANCIAL ANALYSIS OF THE WATER UTILITY

As of the end of the current fiscal year, the unrestricted net assets of the Water Utility are $273,733,438, with net assets increasing by $29,759,424. These increases are primarily attributed to capital contributions received from developers for the installation of water mains.

Water Utility's net assets increased by $29.7 million or 3.13 percent to nearly $980 million due to $38.8 million in Capital Contributions from property owners and other governmental agencies and an operating loss, including transfers, of $9.1 million.

During the year, Water Utility's operating revenue increased 4.8 percent to $222.8 million, while total operating expenses remained level at $223.8 million.

Also during the year, Water Utility had a decline in interest revenue. This decline was due to the reduction in the cash remaining from the 1998 Water Bond issuance of over $97.3 million to reimburse expenses of the Water Utility Capital Program.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Water Utility's investment in capital assets for the year ended June 30, 2002 amounts to $1,080,713,650 (net of accumulated depreciation). The total increase in the Water Utility's investment in capital assets for the current fiscal year is 14 percent.

WATER UTILITY OF THE CITY OF SAN DIEGO'S CAPITAL ASSETS
[Net of accumulated depreciation]

	2002	2001
Land	$ 36,902,534	$ 36,927,554
Structures and Improvements	64,666,881	30,571,577
Equipment	8,369,491	8,752,852
Distribution and Collection Systems	456,642,130	408,715,508
Construction-in-Progress	514,132,614	465,735,202
Total	$1,080,713,650	$950,702,693

Highlights of Fiscal Year 2002 Capital Improvement Activities

Construction on the $21.5 million Black Mountain Road Pipeline began during the Fiscal Year 2002. The 5.0-mile pipeline will increase water transmission capacity for the Miramar Water Treatment Plant to the northern part of the City, and provide needed system capacity to satisfy current and future demands. The Water Utility's Fiscal Year 2002 capital expenditures for the Black Mountain Road Pipeline were $6.4 million. Completion is scheduled for Fiscal Year 2004.

Highlights of approved Fiscal Year 2003 Capital Improvement Projects Budget

$62.5 million for the Fiscal Year 2003 Water Department CIP budget plus and additional $26.1 million for projects phase funded in previous years. Projects include the Alvarado Water Treatment Plant, including the Earl Thomas Reservoir, the upgrade and expansion of the Miramar Water Treatment Plant and replacing water mains citywide. These improvements will allow the Water Department to continue to supply San Diegans with a reliable source of safe, clean water, meeting the requirements of the 1996 Safe Drinking Water Act.

Outstanding Debt

At the end of the current fiscal year, the Water Utility had total debt outstanding of $385,545,624.

WATER UTILITY OF THE CITY OF SAN DIEGO'S OUTSTANDING DEBT

	2002	2001
Revenue Bonds	$ 378,220,000	$ 385,000,000
Capital Lease Obligations	-	103,871
Net Pension Obligation	1,705,165	1,308,436
Liability Claims	1,324,867	1,060,623
Accrued Annual Leave	4,295,592	4,001,606
Total	$ 385,545,624	$ 391,474,536

The Water Utility has an Aaa rating from Moody's Investors Service and an AAA rating from Standard & Poor's on the latest Certificate of Undivided Interest Series 1998 Net System Revenue bond issue.

Additional information on the Water Utility's long-term debt can be found in the accompanying notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In October, the Water Utility issued $286,945,000 of lease revenue bonds to finance the upgrade and expansion of its Water System, consistent with the Water Strategic Plan. Council adopted a water rate increase of 6% per year for five years, beginning in Fiscal Year 2003, to finance the bond issuance.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Water Utility's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Auditor & Comptroller, 202 C Street, City of San Diego, California 92101 or e-mailed to the City Auditor and Comptroller at auditor@sandiego.gov.

* * *

Water Utility

STATEMENTS OF NET ASSETS, JUNE 30, 2002 AND 2001

	June 30	
	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash or Equity in Pooled Cash and Investments: Water Operating Fund	$ 213,307,034	$ 227,645,760
Accrued Interest Receivable	1,304,721	4,808,670
Accounts Receivable - Principally from Customers (Less Allowance for Doubtful Accounts of $1,225,593 and $1,320,855, Respectively)	38,046,273	37,115,746
Operating Grants Receivable	22,340	26,240
Inventory of Water in Storage	31,047,394	12,798,650
Operating Materials and Supplies, Principally at Average Cost	255,575	202,790
Prepaid Expenses	74	640
TOTAL CURRENT ASSETS	283,983,411	282,598,496
NONCURRENT ASSETS:		
RESTRICTED ASSETS:		
Customer Deposits	5,416,801	4,528,121
Cash or Equity in Pooled Cash and Investments - Acquisition Funds	5,644,156	102,943,485
Cash or Equity in Pooled Cash and Investments - Interest and Redemption Funds	29,052,663	31,079,120
TOTAL RESTRICTED ASSETS	40,113,620	138,550,726
ADVANCES TO CITY OF SAN DIEGO INTERNAL SERVICE FUNDS	15,663,704	14,013,643
CONSTRUCTION GRANTS RECEIVABLE	29,735	23,800
DEFERRED CHARGES	7,972,004	8,278,620
CAPITAL ASSETS:		
Land	4,824,291	4,824,291
Plants, dams, canals, laterals and equipment	700,129,222	687,012,377
Other	465,001	465,001
Construction in progress	599,846,075	471,318,386
Total	1,305,264,589	1,163,620,055
Less Accumulated Depreciation	224,550,939	212,917,362
TOTAL CAPITAL ASSETS - NET	1,080,713,650	950,702,693
TOTAL ASSETS	1,428,476,124	1,394,167,978

See Notes to Financial Statements.

EXHIBIT A

	June 30	
	2002	2001
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable	37,088,942	29,633,354
Accrued Payroll	2,157,371	2,060,305
Accrued Annual Leave and Sick Leave	3,928,218	3,669,696
Accrued SPSP Contributions Payable	367,374	331,910
Interest Accrued on Long-Term Debt	8,452,370	8,558,429
Long-Term Debt Due Within One Year	7,055,000	6,883,871
Liability Claims	1,324,867	1,060,623
Pension Liability	1,705,165	1,308,436
TOTAL CURRENT LIABILITIES	62,079,307	53,506,624
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Customer Deposits Payable	5,416,801	4,528,121
DEFERRED CREDITS:		
Deferred Contributions in Aid of Construction	990,993	1,023,421
Other Deferred Credits	8,918,708	6,743,921
TOTAL DEFERRED CREDITS	9,909,701	7,767,342
NONCURRENT LIABILITIES:		
Bonds Payable	378,220,000	385,000,000
Capital Lease Obligations	-	103,871
Total	378,220,000	385,103,871
Less Amounts Due Within One Year	7,055,000	6,883,871
TOTAL NONCURRENT LIABILITIES	371,165,000	378,220,000
TOTAL LIABILITIES	448,570,809	444,022,087
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	702,493,650	651,208,880
Restricted for Debt Service	3,678,227	5,704,685
Unrestricted	273,733,438	293,232,326
TOTAL NET ASSETS	$ 979,905,315	$ 950,145,891

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS **EXHIBIT B**

YEARS ENDED JUNE 30, 2002 AND 2001

	Year Ended June 30	
	2002	2001
OPERATING REVENUES:		
Sales of Water:		
Inside City:		
Domestic	$ 118,233,276	$ 115,380,542
Commercial and Industrial	70,006,421	67,541,340
Reclaimed Water	2,333,783	3,525,321
Outside City:		
Domestic, Commercial and Industrial	128,947	109,991
Other Utilities	6,840,711	6,580,655
Irrigation Districts	521,922	634,995
Total Sales of Water	198,065,060	193,772,844
Other Operating Revenues:		
Recreation	1,303,921	1,272,055
Fire Services and Back Flow Device Maintenance	1,968,329	1,933,590
Rent from Use of Facilities	3,653,655	3,441,577
Customer Service Charges	821,192	409,593
Storage and Transportation of Water from Other Agencies	381,361	208,774
Other Operating Grants	538,530	905,070
Miscellaneous (Net)	15,780,049	10,346,475
Total Other Operating Revenues	24,447,037	18,517,134
TOTAL OPERATING REVENUES	222,512,097	212,289,978
OPERATING EXPENSES	223,816,625	223,901,388
OPERATING INCOME (LOSS)	(1,304,528)	(11,611,410)
NONOPERATING REVENUES (EXPENSES):		
Interest Income	11,882,943	28,067,341
Interest Expense	(18,487,877)	(18,722,024)
Financing Costs Under Water Revenue Bonds	(306,615)	(306,615)
Gain (Loss) on Sale/Retirement of Fixed Assets	130,111	747,308
Sale of Gravel, Land, etc	6,082	23,940
Non-Operating Grants	200,881	1,272,454
Other	(200,881)	(1,267,913)
TOTAL NONOPERATING REVENUES (EXPENSES)	(6,775,356)	9,814,491
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(8,079,884)	(1,796,919)
Capital Contributions	38,825,052	34,515,052
Transfers from Primary Government	-	67,144
Transfer Out	(44,592)	(1,212,868)
Transfers to Primary Government	(941,152)	(270,242)
CHANGE IN NET ASSETS	29,759,424	31,302,167
Net Assets at Beginning of Year (Restated)	950,145,891	918,843,724
NET ASSETS AT END OF YEAR	$ 979,905,315	$ 950,145,891

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2002 AND 2001

EXHIBIT C

	Year Ended June 30	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	$ 223,727,976	$ 215,032,032
Payments to Suppliers	(167,581,832)	(170,367,549)
Payments to Employees	(53,403,711)	(48,401,177)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	2,742,433	(3,736,694)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from Primary Government	-	67,144
Transfers Out	(44,592)	(1,212,868)
Transfer to Primary Government	(941,152)	(270,242)
Proceeds from Advances and Deposits	888,680	461,568
Payments for Advances and Deposits	(1,650,061)	(1,470,845)
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(1,747,125)	(2,425,243)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Contributed Capital	25,127,760	20,241,324
Aquisition of Capital Assets	(129,827,169)	(111,678,763)
Proceeds from the Sale of Capital Assets	1,019,184	259,277
Principal Payment on Capital Lease	(103,871)	(131,878)
Principal Payment on Long-Term Debt	(6,780,000)	-
Interest Paid on Long-Term Debt	(18,593,936)	(18,729,536)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(129,158,032)	(110,039,576)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received on Investments	15,386,892	28,068,289
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	15,386,892	28,068,289
Net Increase(Decrease) in Cash and Cash Equivalents	(112,775,832)	(88,133,224)
Cash and Cash Equivalents at Beginning of Year	366,196,486	454,329,710
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 253,420,654	$ 366,196,486
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Operating Income (Loss)	$ (1,304,528)	$ (11,611,410)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Depreciation and Amortization	12,624,432	12,528,800
Changes in Assets and Liabilities:		
(Increase)Decrease in Accounts Receivable:		
Accounts - Net	(930,527)	(25,596)
(Increase)Decrease in Grant Receivable	(2,035)	1,092,894
(Increase)Decrease in Inventories	(18,301,529)	(2,824,810)
(Increase)Decrease in Prepaid and Reimbursable Items and Deposits	566	99,318
Increase(Decrease) in Accounts Payable	7,455,588	(2,708,601)
Increase(Decrease) in Accrued Wages and Benefits	391,052	805,187
Increase(Decrease) in Liability Claims	264,244	(3,128,282)
Increase(Decrease) in Deferred Revenue	2,142,359	1,670,215
Increase(Decrease) in Net Pension Liability	396,729	361,050
Other Nonoperating Revenue (Expenses)	6,082	4,541
Total Adjustments	4,046,961	7,874,716
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 2,742,433	$ (3,736,694)
Noncash Investing, Capital, and Financing Activites:		
Developer Contributed Assets	13,697,292	14,273,728

See Notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2002 AND JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Section Fifty-Three of the Charter of the City of San Diego (the "City") establishes a separate utility (the "Water Utility") which is included in the administrative organization of the City; its financial information and records are established and maintained by the City.

As of July 1, 2001, the City of San Diego adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments;" GASB Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus;" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures." This results in a change in the format and content of the basic financial statements.

The accounting policies of the Water Utility conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant of such policies:

a. Basis of Presentation

The financial activities of the Water Utility are accounted for and reported as an Enterprise Fund of the City. The measurement focus is upon determination of net income, financial position and changes in cash flows.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Water Utility adopts all Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

b. Basis of Accounting

The Water Utility uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Estimated unbilled revenues are recognized at the end of each fiscal year. This estimated amount is based on billings during the first two months following the close of the fiscal year.

c. Cash and Investments

At July 1, 1997, the City of San Diego adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires certain investments to be reported at fair value. At June 30, 2002 and 2001 respectively, all such investments are presented at fair value.

d. Inventories

Inventories, which consist of water in storage, are valued at the lower of cost (first-in, first-out basis) or market. Such inventories are expensed when consumed.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Restricted Assets

Proceeds from debt issuances, funds set aside for payment of Water Revenue Bonds servicing low interest construction made by various banks are classified as restricted assets since their use is limited by applicable bond indentures.

Generally, when both restricted and unrestricted resources are available for use, it is the Water Utility's policy to use restricted resources first, then unrestricted reserves as they are needed.

f. Capital Assets

Fixed assets owned by the Water Utility are stated at cost if purchased or constructed, or at estimated fair market value if received as a donation. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Plants, dams, canals, laterals and equipment: 3-150 years.

g. Long-Term Liabilities

In the Water Utility financial statements, long-term debt and other long-term obligations are reported as Noncurrent Liabilities in the Statement of Net Assets.

h. Employee Annual Leave

The City provides annual leave to cover both vacation and sick leave. It is the City policy to permit employees to accumulate between 6.25 weeks and 17.5 weeks, depending on hire date, of earned but unused annual leave. Accumulation of these earnings will be paid to employees upon separation from service.

In addition, sick leave earned through August 1981 by employees hired prior to July 1, 1975, is payable upon separation under the following conditions: (1) 50% of the employee's accrued amount upon retirement or death, or (2) 25% of the employee's accrued amount upon resignation. Annual leave benefits are recorded as a liability in the period earned by the employees.

i. Claims and Judgments

Costs of claims and judgments are recorded when the liability is incurred and measurable.

j. Contributions in Aid of Construction

Additions to contributions in aid of construction (approximately $38,825,000 in 2002 and $34,515,000 in 2001) represents facilities or cash contributed for facility construction by property owners or government agencies. Cash contributions in aid of construction for meters and service are classified as deferred credits until the facilities have been installed.

k. Allocation for System Expansion

A percentage of water sales is allocated by ordinance for capital improvements.

l. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

m. Statement of Cash Flows

All of the Water Utility's restricted and unrestricted "Cash or Equity in Pooled Cash and Investments" and "Cash with Custodian/Fiscal Agent" are classified as cash and cash equivalents, since they are readily convertible to known amounts of cash or are so close to their maturity that they present an insignificant risk of changes in value because of fluctuations in interest rates.

n. Reclassification

Certain prior year amounts have been reclassified to conform with current year presentation.

2. CASH AND INVESTMENTS

a. Cash or Equity in Pooled Cash and Investments

Cash resources of the Water Utility are combined with the cash resources of the City to form a pool of cash that is managed by the City Treasurer. As provided for by the Government Code, the cash balance of substantially all City funds and certain entities are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The Water Utility's net share of the total pooled cash and investments is included in the accompanying statement of net assets under the caption "Cash or Equity in Pooled Cash and Investments". Interest earned on pooled investments is deposited to certain of the participating City funds and entities, including the Water Utility, based upon each fund's and each entity's average daily deposit balance during the allocation period with all remaining interest deposited to the City's General Fund.

The City may transact business only with banks, savings and loans, and investment securities dealers who are primary dealers regularly reporting to the New York Federal Reserve Bank. Exceptions to this rule can be made only upon written authorization of the City Treasurer. Authorized cash deposits and investments are governed by state law, as well as by the City's own written investment policy. Within the context of these limitations, permissible investments include (1) obligations of the U.S. government and federal agencies, (2) commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, (3) bankers' acceptances, (4) negotiable and/or non-negotiable certificates of deposit and non-negotiable time deposits issued by a nationally or state chartered bank or a state or federal savings and loan association, (5) repurchase and reverse repurchase agreements, (6) the local agency investment fund established by the state treasurer and (7) financial futures contracts which are used to offset an existing financial position and not for outright speculation.

b. Reverse Repurchase Agreements

Investment policies permit the City to enter into reverse repurchase agreements which is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received providing the dealers a margin against a decline in the market value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities of cash or equal value, the City could suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the reverse repurchase agreement obligation, including accrued interest payable. In Fiscal Year 2002, however, the City did not enter into any reverse repurchase agreements. As such, there was no such credit exposure at year-end.

2. CASH AND INVESTMENTS (Continued)

Deposits and investments are generally exposed to two types of risk; credit risk and market risk. Credit risk is the risk that a governmental entity will not be able (a) to recover deposits if the depository financial institution fails or (b) to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. Market risk is the risk that the value of an investment will decline.

Deposits may be categorized as follows: (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name, (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entities name, (3) Uncollateralized.

Investments may be categorized as follows: (1) Insured or registered, with securities held by the entity or its agent in the entity's name, (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name, (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

In accordance with governmental reporting standards, the City has classified its deposits and investments by categories of credit risk. Information pertaining to the City's cash and investment pool may be found in the City's Comprehensive Annual Financial Report.

3. CAPITAL ASSETS

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

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	$ 36,927,554	$ (25,020)	$ -	$ -	$ 36,902,534
Structures and Improvements	101,073,960	-	-	-	101,073,960
Equipment	25,025,438	937,202	(19,790)	(140,890)	25,801,960
Distribution and Collection Systems	614,988,179	13,426,788	(1,061,446)	-	627,353,521
Construction in Progress	385,604,924	130,289,579	(1,761,889)	-	514,132,614
Total at Historical Cost	1,163,620,055	144,628,549	(2,843,125)	(140,890)	1,305,264,589
Less Accumulated Depreciation For:					
Structures and Improvements	(35,374,069)	(1,033,010)	-	-	(36,407,079)
Equipment	(15,920,500)	(1,784,330)	19,964	252,397	(17,432,469)
Distribution and Collection Systems	(161,622,794)	(9,197,862)	109,265	-	(170,711,391)
Total Accumulated Depreciation	(212,917,363)	(12,015,202)	129,229	252,397	(224,550,939)
Capital Assets, Net	$ 950,702,692	$ 132,613,347	$ (2,713,896)	$ 111,507	$ 1,080,713,650

4. LONG-TERM DEBT

The City Charter provides that the bonded indebtedness for the development, conservation and furnishings of water cannot exceed 15% of the most recent assessed valuation of all real and personal property of the City subject to direct taxation, and 10% for other municipal improvements. At June 30, 2002, such limits for the City were $3,761,418,000 and $2,507,612,000, respectively.

The $385,000,000 San Diego Facilities and Equipment Leasing Corporation (Corporation) 1998 Water Revenue Bonds were issued to finance the acquisition, construction, installation, and improvement of its

4. LONG-TERM DEBT (Continued)

water system. The Corporation obtained financing for the project through the issuance of bonds secured by installment payments made to the Corporation by the City. The bonds bear interest from 4.0 percent to 5.375 percent and are due in annual installments. The City has pledged revenues from its net system to finance these installment payments in an amount equal to the principal and interest requirements of the associated bonds, and are considered a liability of the Water Utility fund.

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2002	Balance Outstanding June 30, 2001
Water Revenue Bonds Series 1998	4.0-5.375%	2028	$385,000,000	$378,220,000	$385,000,000
Capital Lease Obligations	6.0-6.4%	2002	611,215	-	(103,871)
Total Long-Term Debt			$385,611,215	$378,220,000	$385,103,871

The following is a summary of changes in general long-term debt for the year ended June 30, 2002:

Type of Obligation	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002	Due Within One Year
Water Revenue Bonds, Series 1998	$385,000,000	$ -	$6,780,000	$378,220,000	$7,055,000
Capital Lease Obligations	103,871	-	103,871	-	-
Total	$385,103,871	$ -	$6,883,871	$378,220,000	$7,055,000

Annual requirements to amortize long-term debt as of June 30, 2002, including interest payments to maturity are as follows:

Year Ending June 30,	Bonds Payable Principal	Bonds Payable Interest
2003	$ 7,055,000	$ 18,317,236
2004	7,345,000	18,029,236
2005	7,645,000	17,729,436
2006	7,965,000	17,409,271
2007	8,305,000	17,065,525
2008 - 2012	47,770,000	79,091,713
2013 - 2017	61,690,000	65,167,250
2018 - 2022	79,600,000	47,251,613
2023 - 2027	102,425,000	24,430,731
2028 - 2029	48,420,000	2,327,263
Total	$378,220,000	$306,819,274

5. LEASE COMMITMENTS

Lease Revenue

The Water Utility has operating leases for certain land, buildings, and facilities with tenants and concessionaires who will provide the following minimum annual lease payments:

Year Ending June 30	
2003	$ 1,718,325
2004	1,675,863
2005	1,521,417
2006	1,490,641
2007	1,349,494
Thereafter	24,961,926
Total	$32,717,666

This amount does not include contingent rentals which may be received under certain leases of property on the basis of percentage returns. Contingent rentals amounted to $1,907,966 in the year ended June 30, 2002.

6. TRANSACTIONS WITH THE CITY OF SAN DIEGO

The Water Utility has financed the acquisition by the City's Internal Service Funds of certain vehicles and supplies used by the Water Utility. The Internal Service Funds charge the Water Utility for the use of the vehicles and supplies. However, there is no specific provision for the repayment of these advances or interest on them. It is the City's general intent that the advances be repaid as the financial condition of the Internal Service Funds permit.

Included in operating expenses is approximately $2,971,000 in 2002 and $3,004,000 in 2001 charged by the City to the Water Utility for indirect general government expenditures incurred by the City. Such charges are based on a pro-rata portion of general government expenditures applicable to the Water Utility.

The Water Utility sells water to the City at commercial rates. Such revenues were approximately $7,370,000 in 2002 and $7,178,000 in 2001.

The Water Utility paid approximately $6,743,000 in 2002 and $6,703,000 in 2001 for computer services provided by the San Diego Data Processing Corporation, a non-profit corporation, of which the City is the sole member.

The Water Utility paid $1,066,681 in 2002 and $2,631,042 in 2001 to the City for right-of-way impact assessment charges for the use of public right-of-way for water distribution systems.

7. CHARGE IN LIEU OF TAXES

Charge in lieu of taxes consists primarily of charges by the Metropolitan Water District of Southern California and the San Diego County Water Authority.

8. PENSION PLANS

The City has a defined benefit plan and various defined contribution pension plans covering substantially all of its employees.

8. PENSION PLANS (Continued)

DEFINED BENEFIT PLAN

a. Plan Description

All of the City and the San Diego Unified Port District (the "District") full-time employees participate in the San Diego City Employees' Retirement System (SDCERS).

SDCERS is a public employee retirement system established in 1927 by the City and administered by a Board of Administration (the "Board") to provide retirement, disability, death and survivor benefits for its members.

In 1963, through an agreement between the City and the District, employees of the District became members of SDCERS.

The Plan is a defined benefit plan which covers all eligible employees of the City and the District. The Plan is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District. As a defined benefit plan, retirement benefits are determined primarily by a member's age at retirement, the length of membership service and the member's final compensation earnable based on the highest one-year period.

The Plan provisions applicable to general members are generally applicable to the District's general members and those applicable to lifeguard members are generally applicable to the District's safety members.

All full-time City and District employees are eligible to participate in the Plan. Salaried classified employees become members of the system upon employment. Salaried unclassified employees hired on or after August 11, 1995, become members upon employment.

SDCERS is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as a Pension Trust Fund.

SDCERS issues a stand-alone financial report which is available at its office located at 401 B Street, Suite 400, San Diego, California 92101.

b. Funding Policy

SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years (19 years remaining).

Employees are required to contribute a percentage of their annual salary to the Plan. Contributions vary according to age at entry into the plan and salary. The City and the District contribute a portion of the employees' share and the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the projected unit credit method of actuarial valuation. Prior to June 30, 1993, contributions were based on the entry age normal cost method of valuation.

During the period July 1, 2001, to June 30, 2002, contributions totaling $105,699,000 ($51,058,000 employer, and $54,641,000 employee) were made. Of the employer contributions, $40,846,000 was applied to normal cost and $10,212,000 was applied to unfunded accrued liability. All of the employer offset contributions were applied to normal cost.

8. PENSION PLANS (Continued)

In 1996 the City Council approved proposed changes to SDCERS which included changes to retiree health insurance, plan benefits, employer contribution rates and system reserves. The proposal included a provision to assure the funding level of the system would not drop below a level the Board's actuary deems reasonable in order to protect the financial integrity of SDCERS. A citizen required vote on the changes related to retiree health insurance passed overwhelmingly in 1996. In 1997, active members of SDCERS voted and approved the changes. Portions of the proposal requiring SDCERS Board approval (employer rates and reserves) were approved after review and approval by its independent fiduciary counsel and consultation with the actuary. The San Diego Municipal Code was then amended to reflect the changes.

The changes provide the employer contribution rates be "ramped up" to the actuarially recommended rate in .50 percent increments over a ten year period at such time it was projected that the Projected Unit Credit (PUC) and Entry Age Normal (EAN) rates would be equal and SDCERS would convert to EAN. The actuary calculated the present value of the difference between the employer contribution rate and actuarial rates over the ten year period and this amount was funded in a reserve. This "Corridor" funding method is unique to SDCERS and therefore is not one of the six funding methods formally sanctioned by the Governmental Accounting Standards Board for expending purposes. As a result for June 30, 2002, the actuary rates are reported to be $39,230,000 more than paid by the City which, technically per GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employees," effective for periods beginning after June 15, 1997, is to be reported as a Net Pension Obligation (NPO) even though the shortfall is funded in a reserve. The actuary believes the Corridor funding method is an excellent method for the City and that it will be superior to the PUC funding method. The actuary is in the process of requesting the GASB to adopt the Corridor funding method as an approved expending method which would then eliminate any reported NPO.

c. Annual Required Contribution

The annual required contribution for the current year was determined as part of the June 30 actuarial valuation using the projected unit credit actuarial funding method. The actuarial assumptions included (a) an 8.0% investment rate of return and (b) projected salary increases of 4.75% per year. Both (a) and (b) included an inflation rate of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2002 was 19 years.

d. Three-Year Trend Analysis

The following table shows the City's Annual Pension Cost (APC) and the percentage of the APC contributed for the most current year available and preceding years (in thousands):

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation
6/30/99	$44,008	78.30%	$23,046
6/30/00	$50,044	78.66%	$30,983
6/30/01	$52,585	84.32%	$39,230

8. PENSION PLANS (Continued)

e. Net Pension Obligation Three Year-Trend Analysis

The following table shows the calculation of the City's NPO for the most current year available and preceding years (in thousands):

Fiscal Year Ending	Actuarial Required Contribution (ARC)	Interest on NPO	ARC Adjustment	Amortization Factor	APC	Contributions Made	Change in NPO	NPO
6/30/99	$43,504	$1,210	$ 706	21.41%	$44,008	$34,467	$7,922	$23,046
6/30/00	$49,276	$1,844	$1,076	21.41%	$50,044	$39,364	$7,937	$30,983
6/30/01	$54,346	$2,269	$4,030	21.41%	$52,585	$44,338	$8,247	$39,230

DEFINED CONTRIBUTION PLANS

Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, and to the Federal Government's mandate of a Social Security Medicare tax for all employees not covered by Social Security hired on or after April 1, 1986, the City established the Supplemental Pension Savings Plan (SPSP), a defined contribution plan administered by American Express Trust Company, Minneapolis, MN, which provides pension benefits for eligible full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. State legislation requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each month. Participants in the plan hired before April 1, 1986 and on or after April 1, 1986 may voluntarily contribute up to an additional 4.5% and 3.05%, respectively, of total salary.

The City also contributes an amount equal to the employee voluntary contributions. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the City's contribution requirement.

The City and the covered employees contributed approximately $45,584,371 for the year ending June 30, 2002. As of June 30, 2002, fair value of Plan assets totaled approximately $375,108,000. SPSP is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as a Pension Trust Fund.

In addition, the City established a 401(k) Plan effective July 1, 1985. The plan is a defined contribution plan administered by American Express Trust Company, Minneapolis, MN, to provide pension benefits for all eligible full-time employees. Employees are eligible to participate twelve months after the date of employment. Employees make contributions to their 401(k) accounts through payroll deductions, and may also elect to have the City contribute to their 401(k) accounts through the City's Employees' Flexible Benefits Program.

The employees' 401(k) contributions were calculated pursuant to various combination arrangements. The covered employees and the City contributed approximately $21,650,000 during the fiscal year.

As of June 30, 2002, fair value of Plan assets totaled approximately $104,059,000. The 401(k) Plan is considered part of the City of San Diego's financial reporting entity and is included in the City's financial reports as an Agency Fund.

9. POST RETIREMENT HEALTH INSURANCE

In addition to providing pension benefits, the City of San Diego Municipal Code provides certain health care insurance benefits for retired general and safety members of SDCERS who retired on or after October 6, 1980. At June 30, 2002, approximately 3,327 eligible retirees received benefits.

Certain health care insurance benefits were established during Fiscal Year 1995 for eligible retirees who retired prior to October 6, 1980, or who were otherwise not eligible to receive City-paid health care insurance as of June 30, 1994. At June 30, 2002, approximately 536 eligible retirees received benefits.

Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 2002, expenditures of approximately $8,882,138 were recognized for such health care benefits.

Substantially all of the City's general and safety members of SDCERS may become eligible for those benefits if they reach normal retirement age and meet service requirements as defined while working for the City.

10. COMMITMENTS AND CONTINGENCIES

The Water Utility's construction plans for various projects are estimated to cost approximately $105,531,000. The Utility had contractual commitments for these projects totaling approximately $75,082,000 in 2002 and $77,764,000 in 2001. The Utility intends to finance the contractual commitments with reserves and service charges, and the issuance of long-term debt.

The Water Utility is self-insured for general liability claims. The Water Utility has recorded approximately $1,325,000 in 2002 and $1,061,000 in 2001 for such claims. These amounts represent the Utility's determination of the probable ultimate cost of the claims.

11. RESTATEMENT OF BEGINNING BALANCES

As a result of changes in accounting policies and implementation of GASB 34, the fund statements, fund balances, retained earnings, and net assets as of June 30, 2001 have been restated as follows (in thousands):

	Water Utility
Fund balances/net assets, June 30, 2001, as previously reported	$946,008,975
Reclassification/Adjustments	4,136,916
Fund balances/net assets, June 30, 2001, as restated	$950,145,891

12. SUBSEQUENT EVENTS

On October 24, 2002, the Public Facilities Financing Authority issued $286,945,000 of the Subordinated Water Revenue Bonds to finance the upgrade and expansion of the infrastructure of the Water System of the City of San Diego. The Series 2002 Bonds are secured by and payable solely from net system revenues of the Water Utility Fund. The interest rate on the bonds range from 2.00 - 5.00 percent and the maturity date is August 1, 2032.

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NET REVENUE AVAILABLE FOR ADJUSTED DEBT SERVICE **EXHIBIT D**

YEARS ENDED JUNE 30, 2002 AND 2001

UNAUDITED

	Year Ended June 30	
	2002	2001
TOTAL OPERATING REVENUES (Exhibit B)	$ 222,512,097	$ 212,289,978
OPERATING EXPENSES:		
Cost of Purchased Water Used	97,311,568	103,322,108
Water Operations	67,230,801	66,050,761
Capital Improvements Program	8,486,778	8,475,186
Accounting	7,002,388	7,388,769
General and Administrative	29,979,419	25,075,113
Taxes	1,181,239	1,060,651
TOTAL OPERATING EXPENSES	211,192,193	211,372,588
OPERATING INCOME	11,319,904	917,390
OTHER INCOME (CHARGES):		
Capital Grant Receipts	749,187	278,435
Transfers In/(Out)	(44,592)	(1,212,868)
Transfers From/(To) Primary Government	(941,152)	(203,098)
Sale of Gravel, Land, etc	6,082	23,940
Interest Income	13,615,067	18,528,367
Rate Stabilization	2,000,000	7,000,000
Water System Capacity Charge	22,249,985	16,581,394
Non-Operating Grants	200,881	1,272,454
Other Income	(200,881)	(1,267,913)
TOTAL OTHER INCOME (CHARGES)	37,634,577	41,000,711
NET SYSTEM REVENUE	48,954,481	41,918,101
(Interest Earnings on Reserve Fund)	(3,444,126)	(54,334)
ADJUSTED NET SYSTEM REVENUE	$ 45,510,355	$ 41,863,767
Principal and Interest Due in Fiscal Year	25,373,936	18,729,536
Interest Earnings on Reserve Fund	(3,444,126)	(54,334)
ADJUSTED DEBT SERVICE	$ 21,929,810	$ 18,675,202
Debt Service Coverage - Parity Obligations	2.08	2.24

CHANGES IN FUNDS AVAILABLE FOR APPROPRIATION **EXHIBIT E**

YEAR ENDED JUNE 30, 2002

UNAUDITED

	Water Operating Fund
Funds Available for Appropriation at July 1, 2001	$ -
Add:	
Cash Receipts (Schedule E-1)	362,717,342
Anticipated Contributions from Other Agencies at June 30, 2002	120,497
Operating Reserve at July 1, 2001	14,767,000
Emergency Reserve at July 1, 2001	5,000,000
Rate Stabilization at July 1, 2001	28,500,000
Secondary Purchase at July 1, 2001	10,707,000
Continuing Appropriations at July 1, 2001	46,769,476
Continuing Appropriations Encumbered at July 1, 2001	15,552,727
Accrued Annual Leave and Sick Leave at July 1, 2001	3,669,696
Net Pension Obligation at July 1 2001, as Restated	1,308,436
Prior Years' Encumbrances Cancelled	1,924,005
Designated for Subsequent Years' Capital Projects and Operations at July 1, 2001, as Restated	85,742,490
Total Balances and Additions	576,778,669
Deduct:	
Expenditures and Encumbrances (Schedule E-2)	447,405,309
Anticipated Contributions from Other Agencies at July 1, 2001	819,514
Accrued Annual Leave and Sick Leave at June 30, 2002	3,928,218
Net Pension Obligation at June 30, 2002	1,705,165
Operating Reserve at June 30, 2002	14,421,150
Emergency Reserve at June 30, 2002	5,000,000
Rate Stabilization at June 30, 2002	26,500,000
Secondary Purchase at June 30, 2002	11,663,000
Designated for Subsequent Years' Capital Projects and Operations at June 30, 2002	39,615,525
Continuing Appropriations at June 30, 2002	25,720,788
Total Deductions	576,778,669
FUNDS AVAILABLE FOR APPROPRIATION AT JUNE 30, 2002	$ -

Water Utility

RECREATION ACTIVITIES
YEAR ENDED JUNE 30, 2002
UNAUDITED

EXHIBIT F

	Barrett Reservoir Station	Otay Reservoir Station	Sutherland Reservoir Station	Hodges Reservoir Station	Miramar Reservoir Station	El Capitan Reservoir Station	San Vicente Reservoir Station	Murray Reservoir Station	Total
REVENUES									
Fishing	$ 102,353	$ 137,801	$ 46,674	$ 54,733	$ 76,066	$ 107,919	$ 208,796	$ 101,368	$ 835,710
Water Contact	-	-	-	4,632	-	42,839	274,840	-	322,311
TOTAL REVENUES	102,353	137,801	46,674	59,365	76,066	150,758	483,636	101,368	1,158,021
EXPENSES									
Fishing	99,452	170,751	152,378	159,324	145,368	198,112	304,672	177,400	1,407,457
Water Contact	-	166	12,467	-	482	71,028	289,225	461	373,829
TOTAL EXPENSES	99,452	170,917	164,845	159,324	145,850	269,140	593,897	177,861	1,781,286
Gross Profit (Loss) From Operations	$ 2,901	$ (33,116)	$ (118,171)	$ (99,959)	$ (69,784)	$ (118,382)	$ (110,261)	$ (76,493)	(623,265)
Depreciation Expense - All Stations									(88,940)
Net Profit From Operations									$ (712,205)
Percent Profit									-61.50%

CHANGES - PLANT IN SERVICE
YEAR ENDED JUNE 30, 2002

SCHEDULE A-1

UNAUDITED

	Balance at June 30, 2001	Additions	Retirements	Balance at June 30, 2002
BUILDINGS AND STRUCTURES:				
Source of Supply	$ 295,613	$ -	$ -	$ 295,613
Purification	11,570,495	-	-	11,570,495
Transmission	193,436	-	-	193,436
Recreation	2,821,955	-	-	2,821,955
Distribution	4,950,885	-	-	4,950,885
General	926,822	-	-	926,822
TOTAL BUILDINGS AND STRUCTURES	20,759,206	-	-	20,759,206
EQUIPMENT:				
Source of Supply:				
Impounding Dams and Reservoirs	15,591,233	1	-	15,591,234
Wells and Appurtenances	73,182	-	-	73,182
Intake and Section Mains	2,663,881	-	-	2,663,881
Purification:				
Plant and Equipment	7,537,891	-	5,600	7,532,291
Laboratory	1,066,188	-	-	1,066,188
Transmission:				
Reservoirs and Tanks	6,763,222	-	-	6,763,222
Mains and Canals	5,362,746	-	-	5,362,746
Booster Pumping	614,395	-	-	614,395
Recreation:				
Miscellaneous Equipment	1,092,546	-	-	1,092,546
Distribution:				
Reservoirs and Tanks	11,769,018	-	-	11,769,018
Mains and Appurtenances	442,407,366	12,133,518	4,075,839	450,465,045
Booster Pumping	2,961,705	-	-	2,961,705
Services	76,117,633	4,364,453	-	80,482,086
Meters	11,492,487	-	942,597	10,549,890
Hydrants	27,615,371	885,807	-	28,501,178
General:				
Miscellaneous Equipment	16,445,474	926,623	124,921	17,247,176
Office Equipment	4,575,570	22,577	42,158	4,555,989
TOTAL EQUIPMENT	634,149,908	18,332,979	5,191,115	647,291,772
TOTAL BUILDINGS AND STRUCTURES AND EQUIPMENT	654,909,114	18,332,979	5,191,115	668,050,978
LAND:				
Source of Supply	13,227,266	15,129	40,147	13,202,248
Filtration and Purification	2,107,623	-	-	2,107,623
Transmission	751,949	-	-	751,949
Distribution	147,130	-	1	147,129
General	15,869,295	-	-	15,869,295
TOTAL LAND	32,103,263	15,129	40,148	32,078,244
TOTAL PLANT IN SERVICE (Exhibit A)	$ 687,012,377	$ 18,348,108	$ 5,231,263	$ 700,129,222

WATER REVENUE BONDS REQUIREMENTS FOR PRINCIPAL AND INTEREST **SCHEDULE A-2**
JUNE 30, 2002

UNAUDITED

BONDS PAYABLE

Fiscal Year	Annual Requirements Principal	Interest	Total
2002-03	$ 7,055,000	$ 18,317,236	$ 25,372,236
2003-04	7,345,000	18,029,236	25,374,236
2004-05	7,645,000	17,729,436	25,374,436
2005-06	7,965,000	17,409,271	25,374,271
2006-07	8,305,000	17,065,525	25,370,525
2007-08	8,675,000	16,698,194	25,373,194
2008-09	9,065,000	16,307,914	25,372,914
2009-10	9,505,000	15,868,746	25,373,746
2010-11	10,005,000	15,365,239	25,370,239
2011-12	10,520,000	14,851,620	25,371,620
2012-13	11,065,000	14,306,554	25,371,554
2013-14	11,670,000	13,701,495	25,371,495
2014-15	12,305,000	13,065,146	25,370,146
2015-16	12,980,000	12,391,482	25,371,482
2016-17	13,670,000	11,702,573	25,372,573
2017-18	14,370,000	11,001,573	25,371,573
2018-19	15,105,000	10,264,698	25,369,698
2019-20	15,880,000	9,490,073	25,370,073
2020-21	16,695,000	8,675,698	25,370,698
2021-22	17,550,000	7,819,573	25,369,573
2022-23	18,470,000	6,900,603	25,370,603
2023-24	19,460,000	5,914,422	25,374,422
2024-25	20,470,000	4,899,800	25,369,800
2025-26	21,490,000	3,880,750	25,370,750
2026-27	22,535,000	2,835,156	25,370,156
2027-28	23,635,000	1,738,619	25,373,619
2028-29	24,785,000	588,644	25,373,644
TOTAL BONDS PAYABLE	$ 378,220,000	$ 306,819,276	$ 685,039,276

OPERATING EXPENSES

YEARS ENDED JUNE 30, 2002 AND 2001

SCHEDULE B-1

UNAUDITED

	Year Ended June 30	
	2002	2001
COST OF PURCHASED WATER USED:		
Inventory of Purchased Water in Storage - Beginning of Period	$ 12,798,650	$ 9,960,559
Water Purchased	115,560,312	106,160,199
Total Purchased Water Available	128,358,962	116,120,758
Inventory of Purchased Water in Storage - End of Period	31,047,394	12,798,650
TOTAL COST OF PURCHASED WATER USED	97,311,568	103,322,108
DIVISION OF WATER OPERATIONS:		
Impounding and Transmission System		
Recreation	2,714,155	2,446,071
Operation Supervision and Office	8,811,244	12,490,590
Surface Source of Supply	2,110,468	2,359,576
Transmission	15,810	211,476
General Expense	1,071,012	1,966,149
Total Impounding and Transmission System	14,722,689	19,473,862
Filtration and Purification	15,322,514	10,148,399
Operation Supervision and Office	10,738,566	11,508,309
Accrued Claims	3,075,379	(422,815)
Mains	15,374,911	16,594,954
Services	991,601	1,569,058
Hydrants	45	85
Meters	5,634,093	4,536,140
Booster Pumping Stations	5,489	582,486
Reservoirs and Tanks	1,767	729,278
Reclaimed Water - Retrofits	1,363,747	1,331,005
TOTAL DIVISION OF WATER OPERATIONS	67,230,801	66,050,761
DIVISION OF CAPITAL IMPROVEMENTS PROGRAM MANAGEMENT:		
Administration and Office	5,568,905	5,974,891
Project Management	1,994,195	993,636
Planning and Development	415	13,450
Division Management	600,171	1,064,142
Public Information	323,092	429,067
TOTAL DIVISION OF CAPITAL IMPROVEMENTS PROGRAM MANAGEMENT	8,486,778	8,475,186
ACCOUNTING AND SERVICES:		
General Accounting	305,015	234,097
Customer Services	6,697,373	7,154,672
TOTAL ACCOUNTING SERVICES	7,002,388	7,388,769
GENERAL AND ADMINISTRATIVE:		
Utilities Administration and Office	13,147,983	9,971,125
Expenses of Other City Departments Applicable to the Water Utility	9,376,787	8,699,009
Engineering Expenses	1,887,694	1,228,256
Water Conservation Efforts	3,675,851	4,136,217
Uncollectible Accounts	535,014	53,102
General Expense	1,356,090	987,404
TOTAL GENERAL AND ADMINISTRATIVE	29,979,419	25,075,113
TAXES:		
In Lieu Taxes: San Diego County Water Authority	1,039,222	949,293
Taxes County of San Diego	142,017	111,358
TOTAL TAXES	1,181,239	1,060,651
DEPRECIATION AND AMORTIZATION	12,624,432	12,528,800
TOTAL OPERATING EXPENSES (Exhibit B)	$ 223,816,625	$ 223,901,388

ESTIMATED AND ACTUAL CASH RECEIPTS

SCHEDULE E-1

YEAR ENDED JUNE 30, 2002

UNAUDITED

	Estimate	Actual	Actual Over or (Under) Estimate
Sale of Water	$ 200,688,900	$ 199,875,936	$ (812,964)
Service Charges	930,300	493,441	(436,859)
Land and Building Rentals	3,466,000	3,628,261	162,261
New Water Services	1,281,200	2,097,484	816,284
Sale of Discarded Materials and Facilities	25,400	12,290	(13,110)
Interest Earnings	11,716,000	10,621,745	(1,094,255)
Damages Recovered	128,300	325,170	196,870
Services Rendered Other Funds	5,331,283	6,245,735	914,452
Services Rendered Others	1,495,300	2,164,577	669,277
Water System Capacity Charges	16,048,400	22,249,985	6,201,585
Recreation Program and Fees	1,137,900	1,266,268	128,368
Contributions in Aid	4,406,266	2,664,436	(1,741,830)
Sale of Land	-	1,012,976	1,012,976
Non-Operating Grants	320,858	200,881	(119,977)
Reimbursement from Long-Term Debt	110,068,000	101,608,025	(8,459,975)
Other Revenue	338,400	8,250,132	7,911,732
TOTAL RECEIPTS (Exhibit E)	$ 357,382,507	$ 362,717,342	$ 5,334,835

APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES

SCHEDULE E-2

YEAR ENDED JUNE 30, 2002

UNAUDITED

	Appropriations	Expenditures	Encumbrances	Total	Balance
Maintenance and Operations					
Salaries and Wages	$ 36,107,917	$ 34,940,055	$ -	$ 34,940,055	$ 1,167,862
Supplies and Expenses	101,800,890	75,944,016	10,874,723	86,818,739	14,982,151
Equipment	2,294,824	1,020,862	300,233	1,321,095	973,729
Total Maintenance and Operations	140,203,631	111,904,933	11,174,956	123,079,889	17,123,742
Outlay:					
Salaries and Wages	-	4,788,820	-	4,788,820	(4,788,820)
Construction	215,978,207	115,641,543	66,161,840	181,803,383	34,174,824
Total Outlay	215,978,207	120,430,363	66,161,840	186,592,203	29,386,004
Other:					
San Diego County Water Authority	101,900,000	96,754,855	11,300,000	108,054,855	(6,154,855)
Water Conservation	4,641,744	3,442,021	268,488	3,710,509	931,235
Right-of-Way	884,000	1,066,681	-	1,066,681	(182,681)
Water Revenue Bonds	21,779,742	21,929,811	-	21,929,811	(150,069)
Reimbursement to City of San Diego:					
Expenses of Other City Departments Applicable to the Water Utility	2,971,361	2,971,361	-	2,971,361	-
Unallocated Reserve	3,580,374	-	-	-	3,580,374
Total Other	135,757,221	126,164,729	11,568,488	137,733,217	(1,975,996)
TOTAL (Exhibit E)	$ 491,939,059	$ 358,500,025	$ 88,905,284	$ 447,405,309	$ 44,533,750

COMPARATIVE STATISTICS
LAST 30 YEARS

TABLE I

UNAUDITED

Fiscal Year	Water Capital Assets	Bonded Debt	Bonds Payable	Total Net Assets	Retained Earnings
2001 - 2002	$ 1,305,264,589	$ -	$ 378,220,000	$ 979,905,315	$ -
2000 - 2001	1,163,620,055	-	385,000,000	950,145,892	-
1999 - 2000	1,038,508,991	-	385,000,000	-	291,010,795
1998 - 1999	935,811,905	-	385,000,000	-	266,335,816
1997 - 1998	863,229,833	-	-	-	266,298,025
1996 - 1997	822,992,252	-	-	-	254,069,941
1995 - 1996	749,234,434	-	-	-	245,201,770
1994 - 1995	689,106,295	-	-	-	239,508,768
1993 - 1994	626,737,242	-	-	-	239,132,054
1992 - 1993	586,633,825	-	-	-	230,196,751
1991 - 1992	539,772,877	-	-	-	221,364,414
1990 - 1991	489,482,460	-	-	-	211,719,271
1989 - 1990	466,753,038	170,000	-	-	204,365,266
1988 - 1989	438,332,681	340,000	-	-	193,028,191
1987 - 1988	405,096,381	720,000	-	-	157,853,534
1986 - 1987	366,622,054	1,100,000	-	-	139,740,848
1985 - 1986	340,521,942	1,480,000	-	-	121,499,857
1984 - 1985	318,620,979	1,860,000	-	-	119,513,109
1983 - 1984	298,748,076	2,240,000	-	-	110,772,323
1982 - 1983	282,270,412	2,620,000	-	-	104,212,739
1981 - 1982	270,416,609	3,000,000	-	-	98,830,416
1980 - 1981	257,694,556	3,630,000	-	-	92,245,521
1979 - 1980	239,567,013	4,260,000	-	-	81,425,287
1978 - 1979	226,960,836	4,965,000	-	-	73,635,922
1977 - 1978	216,904,233	5,745,000	-	-	66,428,647
1976 - 1977	209,090,926	6,525,000	-	-	64,150,412
1975 - 1976	203,915,924	7,305,000	-	-	63,405,709
1974 - 1975	197,910,525	8,285,000	-	-	60,514,578
1973 - 1974	192,473,688	9,575,000	-	-	56,701,342
1972 - 1973	181,859,155	10,865,000	-	-	57,181,583

COMPARATIVE STATISTICS
LAST 30 YEARS

UNAUDITED

Fiscal Year	Revenue	Maintenance and Operation Expenses	Water Purchased or Used*			Depreciation Amortization
			Imported Water		Saline Water Cost	
			Cost*	Acre Feet*		
2001 - 2002	$ 234,732,114	$ 113,348,899	$ 97,311,568	219,170.2	$ -	$ 12,624,432
2000 - 2001	242,401,021	108,675,715	103,322,108	235,357.9	-	12,528,800
1999 - 2000	248,889,303	98,199,603	92,281,310	210,208.0	-	14,136,250
1998 - 1999	211,367,597	96,067,333	84,123,245	196,091.5	-	13,284,102
1997 - 1998	181,612,655	89,448,267	68,138,177	170,994.0	-	11,105,888
1996 - 1997	172,707,510	80,975,285	69,545,617	164,022.7	-	12,759,173
1995 - 1996	167,892,834	78,628,641	72,962,074	172,080.4	-	9,935,886
1994 - 1995	145,628,214	78,077,896	57,886,929	145,994.8	-	8,672,950
1993 - 1994	140,807,446	69,381,755	52,657,992	190,101.1	-	9,212,932
1992 - 1993	128,588,492	59,154,351	52,178,019	188,368.3	-	7,731,501
1991 - 1992	116,094,979	57,686,053	41,491,445	149,788.6	-	7,096,656
1990 - 1991	117,121,332	54,531,947	47,650,710	201,057.8	-	6,907,474
1989 - 1990	125,267,706	43,851,446	50,831,197	288,500.4	-	6,698,375
1988 - 1989	136,183,000	41,481,831	46,523,472	201,977.4	-	6,190,613
1987 - 1988	110,668,487	35,739,476	43,789,795	208,550.6	-	5,732,815
1986 - 1987	104,381,127	32,805,218	39,808,142	197,643.1	-	5,196,235
1985 - 1986	82,907,314	31,424,159	35,801,406	183,690.7	-	4,892,159
1984 - 1985	79,740,887	28,631,493	29,513,030	155,826.1	-	4,648,067
1983 - 1984	65,912,907	26,628,483	19,028,280	120,877.8	-	4,461,689
1982 - 1983	55,325,538	23,755,751	12,341,385	122,251.3	-	4,435,477
1981 - 1982	53,024,102	20,479,162	14,481,455	143,918.8	-	3,945,427
1980 - 1981	52,668,931	19,296,192	11,760,733	119,889.7	-	3,702,104
1979 - 1980	42,676,380	15,635,427	9,615,852	107,712.0	-	3,382,878
1978 - 1979	38,150,842	13,310,073	7,966,887	108,521.0	-	3,323,911
1977 - 1978	33,854,005	11,676,871	8,946,295	142,761.4	-	3,277,211
1976 - 1977	32,641,018	11,015,318	10,721,716	164,292.4	-	2,953,427
1975 - 1976	32,723,255	10,119,104	9,906,116	168,722.5	-	3,049,505
1974 - 1975	27,619,347	9,373,626	8,547,369	152,466.0	-	2,805,091
1973 - 1974	23,844,758	8,866,523	7,026,638	125,019.8	-	2,778,632
1972 - 1973	21,552,020	8,097,603	8,773,772	165,211.7	20,043	2,578,850

* Effective 1974-1975 the water data represents cost of water used. For the years 1973-1974 and prior, the water data represents water purchased. One acre foot equals 325,900 gallons.

TABLE I
CONTINUED

In Lieu Taxes	Bonded Debt Interest	Water Revenue Bonds Interest	Contributions and Operating Transfers	Change In Net Assets	Net Income* (Net Loss)	Fiscal Year
$ 1,039,222	$ -	$ 18,487,877	$ 37,839,308	$ 29,759,424	$ -	2001 - 2002
949,293	-	18,722,024	33,099,086	31,302,167	-	2000 - 2001
889,765	-	18,707,396	-	-	24,674,979	1999 - 2000
791,645	-	17,063,481	-	-	37,791	1998 - 1999
692,239	-	-	-	-	12,228,084	1997 - 1998
784,636	-	-	-	-	8,642,799	1996 - 1997
673,231	-	-	-	-	5,693,002	1995 - 1996
613,725	-	-	-	-	376,714	1994 - 1995
619,464	-	-	-	-	8,935,303	1993 - 1994
692,284	-	-	-	-	8,832,337	1992 - 1993
175,682	-	-	-	-	9,645,143	1991 - 1992
673,229	3,967	-	-	-	7,354,005	1990 - 1991
12,540,101	9,512	-	-	-	11,337,075	1989 - 1990
6,789,342	23,085	-	-	-	35,174,657	1988 - 1989
7,303,365	39,550	-	-	-	18,063,486	1987 - 1988
8,279,806	50,735	-	-	-	18,240,991	1986 - 1987
8,738,282	64,560	-	-	-	1,986,748	1985 - 1986
8,129,125	78,386	-	-	-	8,740,786	1984 - 1985
9,142,661	92,210	-	-	-	6,559,584	1983 - 1984
7,109,599	106,034	-	-	-	7,577,292	1982 - 1983
7,408,145	125,018	-	-	-	6,584,895	1981 - 1982
6,945,298	144,370	-	-	-	10,820,234	1980 - 1981
6,088,908	163,950	-	-	-	7,789,365	1979 - 1980
6,157,872	184,824	-	-	-	7,207,275	1978 - 1979
7,469,211	206,182	-	-	-	2,278,235	1977 - 1978
6,978,315	227,539	-	-	-	744,703	1976 - 1977
6,505,594	251,805	-	-	-	2,891,131	1975 - 1976
5,869,709	284,316	-	-	-	739,236	1974 - 1975
5,335,690	317,516	-	-	-	(480,241)	1973 - 1974
5,063,372	350,645	-	-	-	(3,332,265)	1972 - 1973

* After Operating Transfers

GENERAL STATISTICS

TABLE II

YEAR ENDED JUNE 30, 2002

UNAUDITED

Square Miles of Land Area (City)	331
Square Miles of Water Area (City)	73
Square Miles of Land and Water Area (City)	404
Population (Estimated June 30, 2002)	1,255,700
Population per Square Mile (Land)	3,794
Total Water Deliveries (Million Gallons) (Raw and Filtered)	76,783.75
Raw Water Used Outside City (Million Gallons)	2,620.02
Sales to California-American Water Company (Million Gallons)	2,446.86
Sales to City of Del Mar (Million Gallons)	441.00
Net Water Deliveries to City (Million Gallons) (Raw and Filtered)	71,275.87
Water Sales by California-American Water Company, Within City's South Bay Area (Million Gallons)	3,890.92
Total City Water Consumption, Including South Bay Area (Million Gallons)	75,166.79
Average Daily City Water Consumption (Million Gallons)	205.94
Average Daily Water Consumption Per Capita (Gallons)	164.00
Minimum Daily Filtered Water Consumption, December 16, 2001 (Million Gallons)	137.00
Maximum Daily Filtered Water Consumption, August 17, 2001 (Million Gallons)	273.60
Water Meters in Service June 30, 2002	266,627
Water Distribution Mains in Service June 30, 2002 (Miles)	3,157.12
Fire Hydrants in Service June 30, 2002	23,844

LOCAL CLIMATIC STATISTICS
YEAR ENDED JUNE 30, 2002

TABLE III

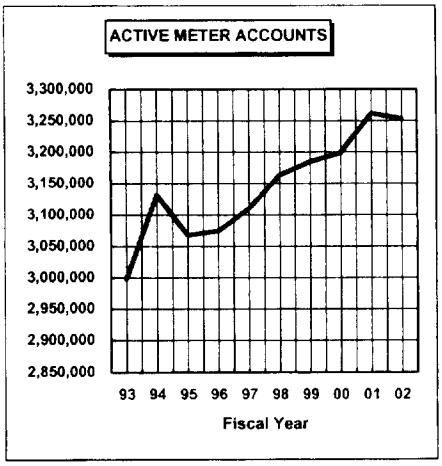
UNAUDITED

Average Daytime Temperature - Season Fiscal Year 2002	67.7 F.
Average Nightime Temperature - Season Fiscal Year 2002	56.8 F.
Average Temperature - Season Fiscal Year 2002	62.2 F.
Average Annual Temperature of Forty Year Period, 1962 - 2001	64.0 F.
Rainfall in the City of San Diego (at San Diego International Airport) During the Season Fiscal Year 2002	3.02 Inches
Normal Seasonal Rainfall	9.99 Inches
Seasons Having Rainfall ABOVE Normal, Recorded Since Fiscal Year 1952	19
Seasons Having Rainfall BELOW Normal, Recorded Since Fiscal Year 1952	32
Heaviest Seasonal Rainfall Recorded During the Last Twenty Fiscal Years (FY 1993)	18.31 Inches
Lightest Seasonal Rainfall Recorded During the Last Twenty Fiscal Years (FY 2002)	3.02 Inches
Average Seasonal Rainfall Recorded During the Last Twenty Fiscal Years	10.28 Inches
Heaviest Seasonal Rainfall Recorded Since Fiscal Year 1850 (FY 1884)	25.97 Inches
Lightest Seasonal Rainfall Recorded Since Fiscal Year 1850 (FY 2002)	3.02 Inches

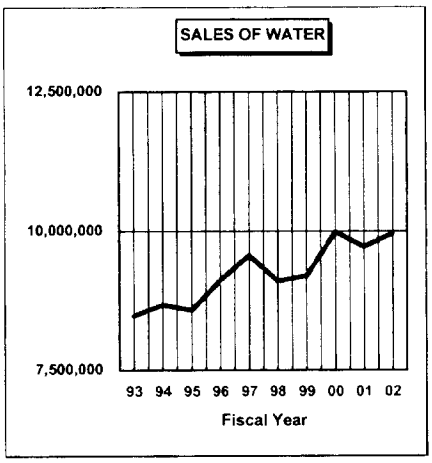
CUSTOMER AND SALES STATISTICS

TABLE IV

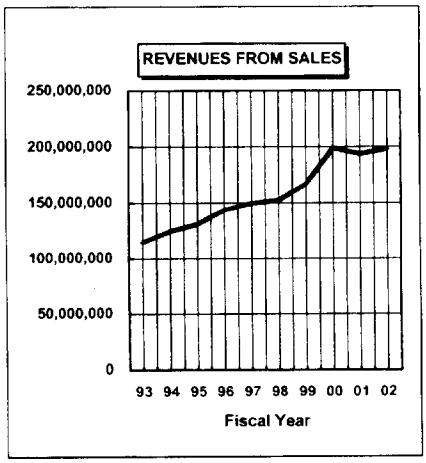
UNAUDITED



CLASS	YEAR ENDING JUNE 30 2002	2001	GROWTH AMOUNT	PERCENT
A. METER MONTHS BILLED				
Single Family Domestic	2,631,883	2,636,962	(5,079)	-0.2%
Other Domestic	368,556	367,659	897	0.2%
Commercial	247,764	251,165	(3,401)	-1.4%
Industrial	4,231	4,493	(262)	-5.8%
Outside City Services	654	650	4	0.6%
Other Utilities	83	93	(10)	-10.8%
TOTALS	3,253,171	3,261,022	(7,851)	-0.2%



B. SALES OF WATER (Millions of Cubic Feet)				
Single Family Domestic	3,501	3,374	127	3.8%
Other Domestic	2,223	2,203	20	0.9%
Commercial	3,474	3,340	134	4.0%
Industrial	205	233	(28)	-12.0%
Outside City Services	4	3	1	33.3%
Other Utilities	544	561	(17)	-3.0%
TOTALS	9,951	9,714	237	2.4%



C. REVENUES (Thousand Dollars)				
Single Family Domestic	$ 75,547	$ 73,300	$ 2,247	3.1%
Other Domestic	42,686	42,081	605	1.4%
Commercial	66,470	63,536	2,934	4.6%
Industrial	3,536	4,005	(469)	-11.7%
Reclaimed	2,334	3,525	(1,191)	0.0%
Outside City Services	129	110	19	17.3%
Other Utilities	6,841	6,581	260	4.0%
Irrigation Districts	522	635	(113)	-17.8%
TOTALS	$ 198,065	$ 193,773	$ 4,292	2.2%

PRINCIPAL RATES (AS OF JUNE 30, 2002) **TABLE V**

UNAUDITED

1. **General Water Service** (Domestic, Commercial and Industrial Use)

a. Customer charge per meter per month:

Size of Meter	Amount
Under 1 inch	$ 9.63
1 inch	10.23
1 1/2 inch	46.27
2 inch	71.16
3 inch	256.53
4 inch	427.93
6 inch	955.93
8 inch	1,286.59
10 inch	1,724.12
12 inch	2,395.42
16 inch	3,989.75

b. Commodity Charge (in addition to customer charge) for each unit of 100 cubic feet (748 gallons):

User Class	Rate
Single Family Domestic	$ 1.273 each for first seven (7) units $ 1.623 each for units 8 - 14 $ 1.793 for each subsequent unit
All Other	$ 1.493 each per unit

2. For domestic, commercial, and industrial service outside the City, the rate is double those listed above. Water supplied for agriculture use outside the City is the same as the above rate for the All Other user class.

3. **Fire Service and Automatic Sprinklers**

Size of Service Conn.	Rate per Month	Size of Service Conn.	Rate per Month
1 1/2 inch	$ 6.26	8 inch	$ 33.40
2 inch	8.35	10 inch	41.75
3 inch	12.53	12 inch	50.10
4 inch	16.70	16 inch	66.80
6 inch	25.05	20 inch	83.50

METRIC EQUIVALENTS

1 Acre foot	=	1,234 Cubic Meters
HCF (100 ft P)	=	2.832 Cubic Meters
1 Gallon	=	.003785 Cubic Meters

The City of San Diego

Water Department

600 B Street
San Diego, California 92101

Office of the City Auditor
and Comptroller

202 C Street
San Diego, California 92101

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